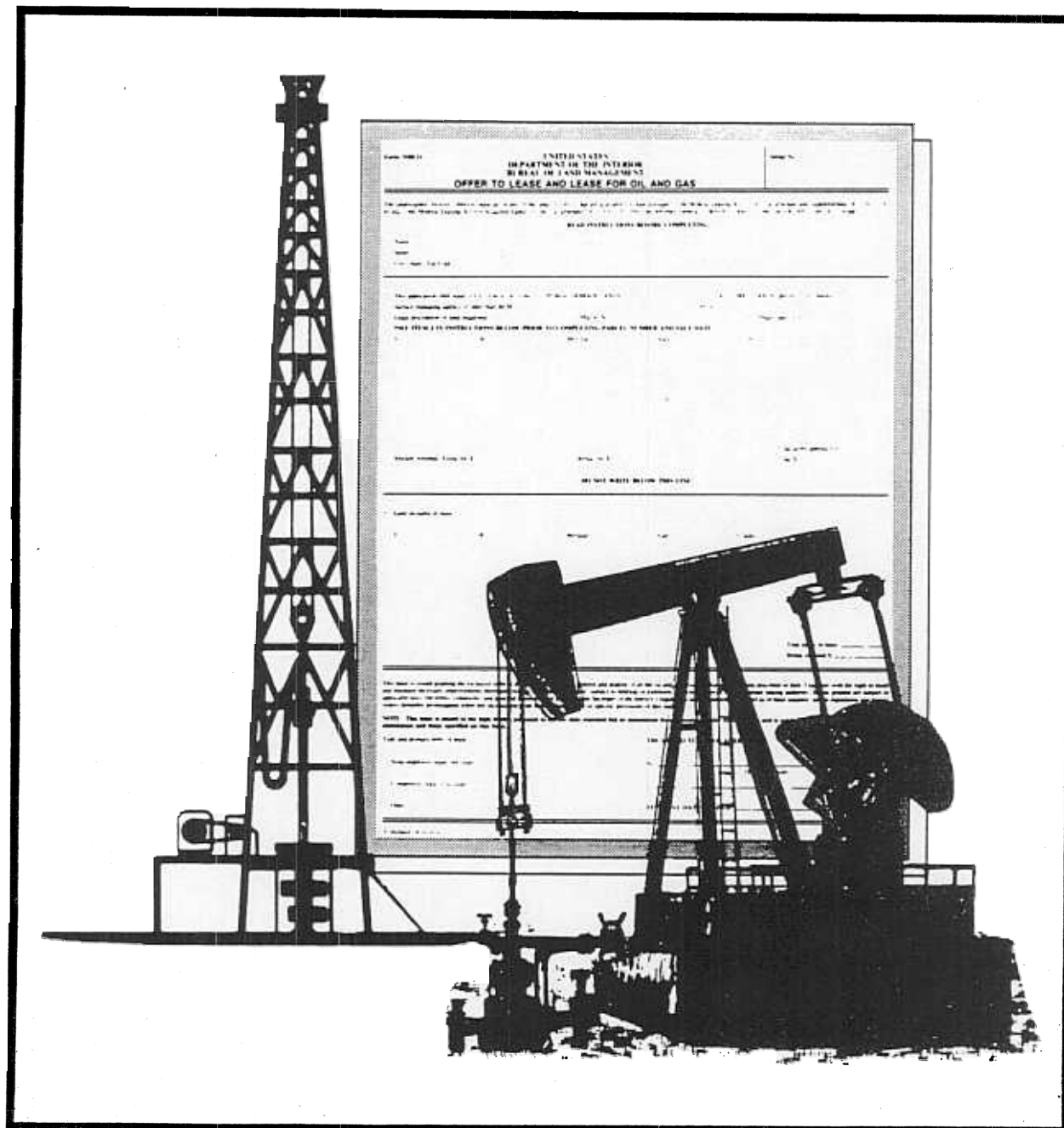




Oil and Gas Adjudication Handbook

Cooperative Conservation Provisions



BLM MANUAL HANDBOOK 3105-1

Revised 1994

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

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Introduction

This Handbook provides guidelines and procedures for adjudicative actions required as a result of approval of oil and gas cooperative or unit agreements; communitization or drilling agreements; invalidation of approval or termination of such agreements; contraction of unit agreements; operating, drilling, or development contracts; and subsurface storage of oil and gas agreements. Close coordination between the Field Office and/or State Office (SO) fluid mineral operations and SO fluid lease adjudication personnel is important to ensure that prompt and correct actions are taken on oil and gas leases involved in the agreements identified above, including notation of the oil and gas plats (or other appropriate status records) and the Automated Land and Mineral Records System (ALMRS) Case Recordation.

Guidelines and procedures also are provided for actions on applications for consolidation of leases.

Throughout this Handbook, all references to annotations on oil and gas plats is intended to include other status records for those BLM offices having such records instead of plats.

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KeywordsI. Approved Unit AgreementAPPROVED UNIT
AGREEMENTA. General

This section of the Handbook provides guidelines and procedures for adjudicative actions, including records notation and lease serial register page/case abstract updates in the ALMRS Case Recordation, on leases affected by the approval of a unit, or a late or subsequent joinder of a lease to a unit, segregations of leases committed in part to a unit, and extensions of segregated leases. (See Anne Burnett Tandy, et al., 33 IBLA 106 (1977) for a good history of unitization.)

For any lease segregated as a result of commitment in part to a unit, if the public interest requirement is not satisfied for the unit, i.e., if actual drilling operations are not commenced and diligently prosecuted in accordance with the terms of the unit agreement, the lease segregation shall be declared invalid. Further, the lease segregation shall be conditioned to state that no operations shall be approved on the segregated portion of the lease past the expiration date of the original lease until the public interest requirement for the unit has been satisfied. (See 43 CFR 3107.3-2.) Also, any lease extension resulting from the lease segregation is invalid if the public requirement is not met. (See also Manual Sections 3105.1 and 3107.4. See Section III.B, below, for action on leases committed to such agreements.)

Any suspension of operations and/or production granted to a lease committed to a unit agreement would remain valid only for the period preceding invalidation of the unit, i.e., the lease suspension shall terminate as of the date the unit is declared invalid, unless continuation of the suspension is justified to the BLM authorized officer on a lease basis.

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B. Action on Leases Within Approved Unit Area

Responsible Official	Step	Action	Keywords
Field Office Operations	1.	Approve and serialize unit agreement and input in ALMRS Case Recordation in accordance with the current data standards.	UNIT APPROVAL
	2.	Send copies to the SO fluid lease adjudication of the unit approval transmittal letter; Exhibit A, a map showing the area; and Exhibit B, Schedule of Leases, showing a description of the lands in leases in the unit area. Formats for the unit agreement and its exhibits are found at 43 CFR 3186.1 through 3186.1-2. Ensure that the unit approval transmittal letter provides the effective date of the unit agreement and other basic information, such as the type of unit (exploratory or secondary recovery), an indication of whether oil or gas has been discovered in the unit area, the formations unitized, a list of the Federal leases within the approved unit area, indicating which leases are to be segregated, and a listing of the committed and uncommitted leases. For examples of the transmittal letters and Exhibit B, see Illustrations 1, 2, and 3.	UNIT AGREEMENT AND EXHIBITS TRANSMITTAL LETTER INFORMATION
<p><u>NOTE:</u> After September 30, 1991, the the agreement case abstract that has been entered into Case Recordation, is to be used in place of the older Exhibit B, Schedule of Leases, format. The use of this automated Exhibit B from the General Remarks area of the Case Recordation agreement case abstract applies to all references to Exhibit B in this Handbook text.</p>			

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Responsible Official	Step	Action	Keywords
	3.	Indicate in the transmittal letter that no leases are to be horizontally segregated. Generally, it is most undesirable for leases to be segregated horizontally. The authorized officer (AO) for fluid mineral operations is not to approve a unit creating such segregations unless the AO is fully satisfied that such a segregation is determined to be in the best interests of the United States, such as a unit designed solely to develop already-established shallow oil sands where the geologic knowledge demonstrates that there are much deeper gas reserves that could not be anticipated to intermingle with the shallow oil.	HORIZONTAL SEGREGATIONS NOT IN PUBLIC INTEREST
	3a.	If horizontal segregations of leases are determined to be in the best interests of the United States and are authorized, the transmittal letter shall indicate clearly all leases to be so segregated, in addition to any vertical segregations, and shall detail the specific reasons for such horizontal segregations.	
	4.	Advise the SO fluid lease adjudication whether any committed leases in the unit are continued solely by production from wells on, or allocated to, any of the leases on the effective date of the unit agreement, and whether such production is allocated to the unitized or nonunitized lands, or to both.	PRE-EXISTING PRODUCTION
Adjudication <i>inc. dcm</i>	5.	<u>OPTIONAL</u> : Establish a unit work folder labeled with unit name, unit serial number, and unit effective date.	UNIT WORK FILE CREATED IN ADJUDICATION
	6.	Order from Docket the lease case files appearing in the transmittal letter.	
Docket	7.	Charge case files to Adjudication.	

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Responsible Official	Step	Action	Keywords
Adjudication	8.	Review case files to ensure that all pending lease assignments are processed to completion promptly, with approval given, if appropriate. (See Handbook 3106-1 for processing assignments.) Act with priority on such assignments, before processing any other pending assignments, to ensure that changes in the lease record title do not adversely affect commitment status of the lease to the unit that the AO for fluid mineral operations relied upon in approving the unit agreement.	PROCESS PENDING ASSIGNMENTS
	9.	If possible, examine leases with pending assignments prior to approval of the unit agreement by the AO for fluid mineral operations. To avoid problems with any such assignments and lease commitment status, review the accuracy of Exhibit B prior to approval of the unit. Use Case Recordation to determine if any assignments have been filed and are pending approval. If assignments are pending, coordinate closely with the Field Office fluid mineral operations, with expeditious processing of such assignments, to ensure that the commitment status of the leases involved in the unit is accurate prior to approval of the unit agreement.	
	10.	If assignments are pending on leases to be segregated, and the assignments can be approved with an effective date prior to or simultaneous with the unit effective date, process them at this time, before the lease segregation is processed under Step I.B.19, below.	

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Depending on the date the assignment was executed and the date the joinder of the lease to the unit was executed by the assignor/assignee, leases believed by the AO to be committed or uncommitted for unit control purposes may, in fact, be the opposite. While an increase in commitment status has a positive effect, a decrease in the amount of acreage in the lease committed to the unit could raise an issue of whether the unit should have been initially approved.

- | | | |
|-----|---|-------------------------------|
| 11. | Do not approve an assignment that will reduce the commitment status of any lease to a unit without first consulting with the AO for fluid mineral operations. Although the effect on commitment status is not grounds to disapprove the assignment, the parties may be willing to take appropriate action, such as withdrawing the assignment or executing a subsequent joinder to correct the commitment status. | LEASE
COMMITMENT
STATUS |
|-----|---|-------------------------------|

If the assignor executed a joinder prior to executing the assignment, the assignor's act is binding on the assignee, and the lease interest assigned will be considered committed even if the assignee has not formally committed its lease interests to the unit.

An assignment executed prior to execution of the unit joinder, however, even if filed subsequently with BLM, will exempt the lease interest assigned from commitment to the unit.

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	11c.	A lease interest assigned to an assignee after the assignor's execution of a joinder, regardless of when the assignment is filed with the BLM or is effective, is committed to the unit if the assignment is executed prior to the effective date of the unit.	
	12.	Determine if any unleased Federal lands are located in the unit area. All such unleased lands are to be indicated on Exhibit B at the end of the Federal leases listed (see Illustration 3).	UNLEASED FEDERAL LANDS
	13.	Notify the SO fluid lease adjudication personnel responsible for preparing the competitive parcels and sale notice to ensure that the required notice to join the unit is attached to all such sale parcels for unleased Federal lands described in the sale notice, and that leases for these lands are not issued without the required unit joinder (see Handbook 3120-1).	
		Transmit Exhibit A to Title Records for entry of unit area on the oil and gas plat or other appropriate status records.	EXHIBIT A UNIT AREA MAP
Title Records	15.	Enter unit area on oil and gas plat or other appropriate status records.	
Adjudication	16.	Check information on Exhibit B against the lease case file data. Check only the legal land description and lease effective date. The AO approving the unit agreement is responsible for the accuracy of Exhibit B; therefore, do not check the lessee and/or working interest owner information shown on Exhibit B. In checking Exhibit B, note each Federal lease (either on the exhibit or by separate listing) as falling in one of the following categories (see Step I.B.18, below, for further discussion of these categories):	EXHIBIT B SCHEDULE OF LEASES

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Entirely committed;

Entirely within the unit area
but not committed;16c. Partially within the unit area
but not committed; or

16d. Committed in part.

17. Determine if any leases or lands not indicated on Exhibits A and B are in the unit area, or if any Federal oil and gas interests in the unit area are not properly indicated on Exhibits A and B. If so, notify Field Office fluid mineral operations to resolve any problems. Such verification can be made from a copy of the noted plat or other appropriate status records from Title Records.

18. Document the case files of committed leases by placing copies of the unit transmittal letter in each lease case file. Note the lease case files appropriately from the information appearing on the transmittal letter and Exhibit B, and as confirmed above:	ACTION ON CASE FILES
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18a. <u>ENTIRELY COMMITTED</u> - (<u>OPTIONAL</u> : Stamp outside of case file: "COMMITTED TO <u>(Name)</u> UNIT AGREEMENT. EFFECTIVE: <u>(Date)</u> .")	LEASE ENTIRELY COMMITTED TO UNIT
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NOTE: "Entirely committed" leases are those leases fully or effectively committed to the unit agreement, as defined in Handbook 3180-1, Section II.U, when all of the lands in the lease are within the unit area

<u>ENTIRELY WITHIN UNIT AREA BUT NOT COMMITTED</u> - No action required. (<u>OPTIONAL</u> : Stamp outside of case file: "ALL IN <u>(Name)</u> UNIT AREA, BUT NOT COMMITTED.")	LEASE ALL WITHIN/ NOT COMMITTED TO UNIT
--	--

*On a unit basis -
EC means all interest
held by unit ORR
"all" "all" "all"
"all" "all" "all"
"all" "all" "all"*

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	18c.	<u>PARTIALLY WITHIN UNIT AREA BUT NOT COMMITTED</u> - No action required. The lease is not segregated. (<u>OPTIONAL</u> : Stamp outside of case file: "PART IN <u>(Name)</u> UNIT, BUT NOT COMMITTED.")	LEASE PARTIALLY WITHIN/ NOT COMMITTED TO UNIT
		<u>NOTE</u> : "Not committed" leases are those leases partially committed or not committed to the unit agreement, as defined in Handbook 3180-1, Section II.U.	
	18d.	<u>COMMITTED IN PART</u> - Lease is segregated. (<u>OPTIONAL</u> : Stamp outside of unitized base lease case file: "COMMITTED TO <u>(Name)</u> UNIT AGREEMENT. EFF: <u>(Date)</u> .") (Also <u>OPTIONAL</u> : Stamp: " <u>SEGREGATED - SEE (Segregated lease serial number)</u> ." See Step I.B.20, below, concerning the lease serial number.	LEASE COMMITTED IN PART TO UNIT
	18e.	Note that a lease "committed in part" has part of the lands fully or effectively committed to the unit agreement, as defined in Handbook 3180-1, Section II.U. Such a lease contains lands both within and outside the unit area. Leases "committed in part" are not "partially committed" leases as described in Handbook 3180-1, Section II.U. Leases "partially committed" are those where the ownership commitment status is not complete due to the failure of all appropriate interest holders to commit their interests to the unit agreement and operating agreement. "Partially committed" leases are considered "not committed" even though the degree of ownership commitment allows actions on the leasehold, such as drilling or production to inure to the benefit of fully or effectively committed unit leases.	

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		Segregate leases "committed in part" into two leases, one for the lands in the unit area (base lease) and another separate lease for those lands not in the unit area (segregated lease). The effective date of lease segregation is the same date as the effective date of the unit approval or the effective date of subsequent joinder. The process is described in Steps I.B.21 through 41, below.	SEGREGATE LEASES FULLY OR EFFECTIVELY COMMITTED TO UNIT SEGREGATION EFFECTIVE DATE
		Request a new lease serial number and case file jacket. The nonunitized lands are segregated from the unitized lands into a new, separate lease. To provide consistency Bureauwide, and to alleviate confusion in present and future actions relating to the two leases, assign the new serial number to the segregated (nonunitized) lease, with the base (unitized) lease to retain its original serial number (see Appendix 1), unless a producing well is located on the segregated lease, in which case the new serial number needs to be assigned to the base (unitized) lease.	NEW SERIAL NUMBER/CASE FILE
	21.	Transfer any well information on the lands in the segregated lease to the new case file. Require a new bond for the new, segregated lease if a bond is required for the new lease and the individual lease bond cannot be transferred from the base lease because an unplugged well exists on the base lease. If the bond is transferred to the new lease, i.e., coverage is by an individual lease bond, ensure that both the principal and surety are notified of this change.	BOND REQUIREMENT

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22. Identify other pertinent documents in the base case file to be copied for the new case file (any documents affecting the lands in the new lease, i.e., lease and terms, stipulations, ownership status, known geological structure (KGS) notices, accounting advices, rental rate increases, etc.).

23. If the rental of the base lease had been increased due to a KGS classification, check whether either the base or segregated lease will no longer contain any lands classified as KGS. If so, reduce the rental in the affected lease to the appropriate rate (based on rate stated in lease form of base lease) and indicate such a reduction in the segregation decision (see Illustration 4; the rental rate reduction information should be indicated after the example paragraphs in the decision).	RENTAL REDUCTION FOR LEASE CONTAINING NO KGS LANDS
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NOTE: The lessee is to be advised of the rental rate reduction due to the lands no longer being in a KGS, even if the lease is already subject to a rental rate reduction under a Secretary of the Interior rental rate reduction initially announced October 24, 1986, and extended to certain other leases through February 29, 1996 (see Manual Section 3103.23B4 and Handbook 3103-1). In some cases, the reduced rental rate in Step I.B.23, above, may be less than the Secretary's rental rate reduction. If so, the lease is entitled to the lower rate.

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	24.	Check whether segregation of a producing lease may result in conversion of either the base lease or the segregated lease from a minimum royalty status to a rental status (when the newly segregated lease is not held by production from other leased lands). In such cases, the rental may be past due and the lessee must be requested in the segregation decision to pay to the Minerals Management Service (MMS) the amount due, within 30 days from receipt of the decision.	ADDITIONAL RENTAL REQUIRED
		<p><u>NOTE:</u> The Interior Board of Land Appeals (IBLA) has ruled that such segregated leases returning to rental status will not terminate for nonpayment of rental until the lessee has been notified of the conversion from minimum royalty (nonterminable) status to rental (terminable) status and allowed a reasonable period of time (30 days) in which to tender the rental deficiency. (See <u>Husky Oil Co.</u>, 5 IBLA 7, 79 I.D. 17 (1972).)</p>	
	25.	Determine whether the base lease or segregated lease will be extended. (See 43 CFR 3107.3-2, Manual Section 3107.32, and Handbook 3107-1.) In making this determination, particularly when producing leases are involved, a review of <u>Celsius Energy Co., et al.</u> , 99 IBLA 53, 94 I.D. 394 (1987) should be made.	EXTENSIONS OF SEGREGATED LEASES
	25a.	If the fixed expiration date (a definite expiration date) of the base lease is 2 years or more from the effective date of the unit, the segregated lease is not extended. Use the first example paragraph in Illustration 4 for such a situation.	

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EXAMPLE: Lease issued 2-1-87;
expiration date of the base
lease is 1-31-97, with a
segregation effective 5-1-94.
Segregated lease receives no
extension and expiration date
will be 1-31-97.

25b. If the fixed expiration date of
the base lease is less than
2 years from the effective date
of the unit approval, the
segregated lease is extended
2 years to the same calendar date
as the effective date of unit
approval. Complete example
paragraph 2 in Illustration 4.

EXAMPLE 1: Competitive 5-year lease
issued 2-1-90; committed in
part to unit, effective
2-13-94. Segregated lease
is extended until midnight
2-13-96.

EXAMPLE 2: Noncompetitive 10-year
lease issued 7-1-83;
extended by diligent
drilling over the
expiration date of 6-30-93
to 6-30-95; committed in
part to unit effective
5-17-94; segregated lease
is extended until midnight
5-17-96.

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If the committed lease is in an indefinite extended term because of production on the base lease, the segregated lease shall continue in effect as long as the base lease exists and so long thereafter as oil or gas is produced from the segregated lease, but for not less than 2 years from the effective date of segregation. Complete example paragraphs 3 and 4 in Illustration 4. (See Beard Oil Company, et al., BLM 039507, dated May 22, 1967, in Appendix 2.)

EXAMPLE: Noncompetitive 10-year lease issued 1-1-84; production established 12-15-93 on lands now within the unit area; committed in part to new unit effective 4-27-94. Segregated lease will continue as long as the base lease continues to exist, but not less than 2 years from the effective date of segregation (4-27-96). Instances of this type need to be explained in detail in the segregation decision (see Illustration 4).

If the committed lease is in an indefinite extended term because of production on the lands in the segregated, nonunitized lease, the unitized (base) lease will continue in effect as long as the segregated lease exists, and so long thereafter as oil or gas is produced in paying quantities on the unitized (base) lease. (See Ann Guyer Lewis, 68 I.D. 180 (July 3, 1961).)

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EXAMPLE: Noncompetitive lease issued 1-1-84; production was established 12-15-82; committed in part to new unit effective 5-16-94 (production is on lands outside the unit area); base lease will continue as long as the segregated lease exists. Segregated lease will continue as long as there is production on the segregated lease, but not less than 2 years from the effective date of segregation (5-16-96). Instances of this type require detailed explanation in the segregation decision (see Illustration 4).

25e. If the committed lease is in a fixed term (has a definite expiration date that may or may not be beyond its primary term), the committed lease will continue only to the end of such term, even if there is a well capable of production on the segregated lease on the effective date of segregation. The segregated lease will continue to the end of such term (but not less than 2 years from date of segregation). Unlike committed or segregated leases that are in an extended term (continued) by reason of production, leases with a definite expiration date will continue only to that date absent a distinctly separate basis for further extension or continuance. (See Celsius Energy Co. et al., 99 IBLA 53, 94 I.D. 394 (1987).)

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EXAMPLE: Noncompetitive 10-year lease issued 4-1-83, extended by diligent drilling over 3-31-93, for 2 years ending 3-31-95; production was established 2-17-94; committed in part to unit effective 6-23-94 (production is outside unit area); base lease will continue until 3-31-95, and so long thereafter as oil or gas is produced in paying quantities from the base lease or from the unit to which it is committed. The segregated lease is extended for 2 years from the date of segregation, or until midnight 6-23-96, and so long thereafter as oil or gas is produced in paying quantities from the segregated lease.

26. Prepare segregation decision (see Illustration 4) for each lease that is committed in part. SEGREGATION
DECISION

NOTE: If the segregation and extension of leases are processed at the time the unit is approved, instead of deferring the lease segregation and extension until the terms of the agreement have been validated at a later time (i.e., the public interest requirement has been met), the segregation decision shall inform the lessee that lease segregation and extension shall be deemed invalid if the unit agreement approval is later invalidated. If a pattern of failure to meet the public interest requirement develops, the SO fluid lease adjudication may choose to defer processing the lease segregations and extensions until terms of the unit have been validated. PUBLIC
INTEREST
REQUIREMENT

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	26a.	Indicate in the decision that no operations shall be approved on the segregated lease past the expiration date of the original lease until the public interest requirement for the unit has been satisfied (see Section I.A, above).	
	27.	If the segregated lease involves lands in more than one county, include the information on the specific acreage within in each county in the decision.	
		Indicate any rental rate reduction in the segregation decision as discussed in Step I.B.23, above.	
		Provide copy of segregation decision to the MMS, Data Management Division (DMD) annotating additional information needed by the MMS-DMD.	MMS PROVIDED COPY OF SEGREGATION DECISION
	<u>NOTE:</u>	If the lease has benefited from a rental rate reduction under the Secretary of the Interior's rental reduction for certain leases that is effective through February 29, 1996, or such other date that is established by a <u>Federal Register</u> announcement, such reduced rental rate is to be annotated on the decision copy transmitted to the MMS-DMD.	
		Since the BLM and the MMS have agreed that neither office shall attempt to collect the incremental rental difference that may be caused by a lease segregation or partial assignment, annotate the copy of the decision sent to the MMS-DMD to clearly indicate: "INCREMENTAL RENTAL DIFFERENCE OF \$----, DUE TO LEASE SEGREGATION/PARTIAL ASSIGNMENT, WAIVED UNTIL NEXT MMS REGULAR BILLING CYCLE."	WAIVER OF INCREMENTAL RENTAL DIFFERENCE DUE TO LEASE SEGREGATION/PARTIAL ASSIGNMENT

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30a. The additional rental required as a result of the segregation or partial assignment shall not be due and payable to the MMS until the next scheduled MMS courtesy notice billing cycle for the involved leases.

NOTE: This waiver shall apply regardless of the additional incremental annual rental rate per acre involved, e.g., \$.50, \$1, \$1.50, \$2, \$5, \$10, etc.

If lease is committed to a producing unit, indicate on the copy of the decision sent to the MMS-DMD that the lease account must be transferred from a nonproducing (terminable) status to a producing (nonterminable) status.	LEASE ACCOUNT TRANSFERRED FROM NONPRODUCING STATUS TO PRODUCING STATUS
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32. After segregation decision is typed and appropriate documents are photocopied for new (segregated) lease case file, check documents, surname decision, and route for signing, mailing, ALMRS Entry, Title Records, and filing in Docket.

ALMRS Entry	33. For leases committed in part to the unit, enter the following, using the current data standards:	AUTOMATED NOTATION
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33a. Enter Action Date (MANDATORY ACTION CODE): Date base (committed) lease segregated (effective date of unit); DE 1775 Action Code 259/DE 2910 Action Code 700; Action Remarks: "INTO (Serial number of the new segregated lease);" (see Illustration 5).

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Change the base lease legal land description so that the serial register page indicates what lands have been segregated and are no longer within the base lease.

OPTIONAL: It is useful to enter after the segregated lands the following: "SEGR TO (Serial number of new segregated lease)," to provide an easy cross-reference to the Action Remarks, especially for leases subjected to more than one segregation.

33c. Correct the acreage remaining in the base lease.

33d. Make appropriate proprietor screen change/update if lease segregation results in a change in lessee (e.g., where two lessees have shared varying interests in portions of the original lease, but after a unit segregation, only one lessee may hold title to the base lease).

Enter the appropriate last historical production code and replace or remove current production codes from the base lease, as appropriate, if all sources of production in the base lease are transferred to the new lease as a result of the lease segregation.

34. For leases committed to a unit, enter the following, using the current data standards (see Illustration 5):	AUTOMATED NOTATION
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Enter Action Date (MANDATORY ACTION CODE): Date lease committed to unit (unit effective date or lease effective date, whichever is later); DE 1775 Action Code 226/DE 2910 Action Code 232; Action Remarks: Unit serial number and name.

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Responsible

Official	Step	Action	Keywords
	35.	For the segregated new lease, enter the following, using the current data standards:	AUTOMATED NOTATION
		Establish the new case with the identical case type from the base lease, e.g., if the base lease is case type 31112, the new segregated lease also will be case type 31112.	
		Enter Action Date (MANDATORY ACTION CODE): Date new lease segregated from base lease (effective date of unit); DE 1775 Action Code 569/DE 2910 Action Code 209; Action Remarks: "OUT OF <u>(Serial number of base lease)</u> ;" (see Illustration 6).	
		Enter Action Date (MANDATORY ACTION CODE): Date parent lease issued (base lease case established); DE 1775 Action Code 001/DE 2910 Action Code 387.	
		Enter Action Date (MANDATORY ACTION CODE): Effective date of lease (from base lease); DE 1775 Action Code 225/DE 2910 Action Code 868.	
		Enter Action Date (MANDATORY ACTION CODE FOR ACQUIRED LANDS ONLY): Fund symbol from base lease; DE 1775 Action Code 444/DE 2910 Action Code 496; Action Remarks: Fund symbol argument code.	
	35f.	Enter Action Date (MANDATORY ACTION CODE): Royalty rate from base lease; Appropriate DE 1775 Action Code 102-109/DE 2910 Action Code 530-536 or 549.	

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Responsible

Official	Step	Action	Keywords
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35g. Enter Action Date (MANDATORY ACTION CODE); Date segregated lease expires; DE 1775/2910 Action Code 763.

Make appropriate proprietor screen change/update if lease segregation results in a change in lessee (e.g., where two lessees have shared varying interests in portions of the original lease, but one lessee may hold title to the new lease).

If all sources of production are transferred from the base lease to the new segregated lease, enter appropriate first production current and historical action codes.

Enter the land description and acreage of the new segregated lease only.

36. If the segregated lease is extended:

AUTOMATED
NOTATION

Enter Action Date (MANDATORY ACTION CODE): Date segregated lease is extended (effective date of unit); DE 1775 Action Code 258/DE 2910 Action Code 235; Action Remarks: THRU (Date to which lease extended).

Enter Action Date (MANDATORY ACTION CODE): New expiration date of lease; DE 1775/2910 Action Code 763.

37. For leases within unit agreement boundary, but not committed to unit, enter the following, using the current data standards:

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Responsible

OfficialStep ActionKeywords

37a. Enter Action Date (MANDATORY ACTION CODE): Date lease in unit but not committed (unit effective date or lease effective date, whichever is later); DE 1775 Action Code 262/DE 2910 Action Code 233; Action Remarks: Serial number of unit agreement; General Remarks: Legal land description, if only part of lease is in unit.

When either base or new segregated lease changes from nonproducing (terminable) status to producing (nonterminable) status, enter the following:

38a. Enter Action Date (MANDATORY ACTION CODE): Date first production memorandum or other notice sent to MMS-DMD that lease changed from nonproducing status to producing status; DE 1775 Action Code 057/DE 2910 Action Code 102.

When either base or new segregated lease changes from producing (nonterminable) status to nonproducing (terminable) status, enter the following:

39a. Enter Action Date (MANDATORY ACTION CODE): Date notice sent to MMS that lease changed from producing status to nonproducing status; DE 1775/2910 Action Code 058.

Title
Records

40. Enter lease serial number for each new segregated lease, and adjust the lease lines on oil and gas plats or other appropriate status records.

Docket

41. File case file.

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KeywordsC. Late or Subsequent Joinder of a Lease to an Existing Unit

A late joinder is one that was executed by the party prior to the effective date of the unit, but that is received by the AO for fluid mineral operations after approval of the unit. Such a late joinder is effective as of the effective date of the unit.

LATE
JOINDER

A subsequent joinder is one executed by a party after the effective date of the unit and received by the AO after this date. The effective date of a subsequent joinder is as specified in the unit agreement. (See Handbook 3100-1, Glossary of Terms.) Agreements following the standard format at 43 CFR 3186.1 (Section 28) provide that the subsequent joinders are effective upon receipt by the AO. Unit agreements following an earlier version of the regulations provide that the effective date of a subsequent joinder will be the first day of the month following receipt of the necessary joinder documents by the AO. For subsequent joinder to a producing unit during the last month of a lease term, see Bruce Anderson, 30 IBLA 179 (1977), and Regional Solicitor's Opinion on Effective Date of Unit Joinders, dated May 16, 1984 (see Appendix 3). For subsequent joinder of a new lease being issued for unleased lands in the unit area, the effective date of joinder is the effective date of the lease.

SUBSEQUENT
JOINDER

For a uncommitted lease committed by late or subsequent joinder, or subsequent joinder of a new lease being issued, evidence of the late or subsequent joinder showing the serial number of lease committed and the effective date of commitment is placed in the lease case file, and the commitment status is noted on Exhibit B following Step I.B.16, above. Follow procedures in Steps I.B.18 through I.B.40, above, to indicate unit joinder in and on the case file, to segregate any lease, and to extend any segregated lease, if appropriate. However, if the lease is committed to a unit by subsequent joinder, the action date in Steps I.B.34 and I.B.37, above, is the effective date of the subsequent joinder as specified by the AO, and not the effective date of the unit or date of unit approval.

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KeywordsII. Approved Communitization AgreementA. General

A communitization agreement (CA) is an agreement where all parties holding working interests in a spacing unit for a certain formation or formations, usually set by a State Oil and Gas Commission order, combine those lease interests and consider operations conducted anywhere in the spacing unit as if they were on each lease. The agreement must be signed by or on behalf of all appropriate parties and filed prior to the expiration of the Federal leases involved in order to confer the benefits of the agreement upon such leases. (See 43 CFR 3105.2-3(a).)

COMMUNITIZATION
AGREEMENT

NOTE: A lease committed in part to a CA is not segregated.

LEASE COMMITTED
TO CA NOT
SEGREGATED

A CA may consist of only Federal leases or a combination of Federal and nonfederal leases, and may be formed at any time before or after the commencement of drilling operations. A CA is effective for Federal oil and gas leases upon approval by the AO for fluid mineral operations. The CA is effective from the date of the agreement or from the date of the onset of production from the communitized formation, whichever is earlier, or in some cases, the effective date may be the same as the effective date of a State pooling order. (See 43 CFR 3105.2-3(b).)

A CA is not usually approved unless all lands are leased. However, a CA may be approved where there is at least one leased tract (Federal, State, Indian, or fee) containing a well producing in paying quantities within the area to be communitized and there will be a long delay in leasing the remaining Federal lands.

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Keywords

Leases within a CA may terminate or expire because of a lack of drilling or failure to timely establish production. In such instances, where no other active Federal lease is committed to the CA or unless drainage is occurring, the AO for fluid mineral operations is to be requested to terminate the CA. If termination of the CA is not appropriate, the unleased Federal lands within the CA are to be made available for competitive leasing promptly under 43 CFR Part 3120. The competitive parcel offered for sale is to include all available lands within the communitized area. The Notice of Competitive Lease Sale for such a parcel must be noted to indicate that the lands are within an existing CA and that the successful bidder shall be required to negotiate a subsequent joinder with the operator of and the owners of other lease working interests in the CA, or otherwise show cause why joinder should not be required. (See Handbook 3120-1.)

UNLEASED
FEDERAL LANDS

Prior to lease issuance, the prospective lessee must comply with 43 CFR 3101.3-1 the same as for a unit area. Upon acceptance of the joinder by the AO for fluid mineral operations, the lease may be issued. The lease form is to be noted: "Committed to Communitization Agreement (CA serial number), Effective (lease effective date)." A lease will not be issued if the prospective lessee fails to join the CA unless satisfactory justification for nonjoinder is submitted and approved by the AO for fluid mineral operations.

Detailed guidance and procedures for approval of a CA are contained in Manual Section 3160-9. (See also Manual Sections 3105 and 3107 and Handbook 3107-1.)

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B. Action on Leases Within Communitized Area

Responsible Official	Step	Action	Keywords
Field Office Operations	1.	Approve and serialize CA and input into ALMRS Case Recordation using the current data standards.	COMMUNITIZATION AGREEMENT APPROVAL
	2.	Send copy of transmittal letter to the SO fluid lease adjudication. The copy of the transmittal letter must show the area and formation or formations communitized, leases affected, and effective date of CA (see Illustration 7). (See Manual Sections 3105.2 and 3160-9.)	
Adjudication	3.	Order the case files for the leases appearing in the transmittal letter	
	4.	<u>OPTIONAL</u> : Establish a CA folder labeled with serial number of CA, and CA effective date.	CA WORK FILE CREATED IN ADJUDICATION
Docket	5.	Charge case files to Adjudication.	
Adjudication	6.	Check to ensure lands in the CA are within the identified lease and not in another lease that has recently been segregated out of the identified lease. If any other leases are affected, obtain the appropriate case files.	ACTION ON CASE FILES
	7.	Place a copy of the transmittal letter or a copy of the CA serial register page in each affected lease case file.	
	8.	<u>OPTIONAL</u> : Stamp outside of lease case files to indicate the CA number and CA effective date.	
		<u>NOTE</u> : At the time the CA is being considered for approval, close coordination between the Field Office fluid mineral operations and the SO fluid lease adjudication is necessary if pending lease assignments or unusual royalty rates on affected leases are involved.	

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Responsible Official	Step	Action	Keywords
	9.	If approval of a CA is accompanied by a first production memorandum, transfer lease accounts from nonproducing (terminable) to producing (nonterminable) status in the MMS automated system using the procedures for First Production provided in Handbook 3107-1, Section II.A.	LEASE ACCOUNT TRANSFERS
	10.	Route case files for ALMRS Entry and to Docket. Route CA information to Title Records for entry of CA area on oil and gas plat or other appropriate status records.	
ALMRS Entry	11.	Enter Action Date (MANDATORY ACTION CODE): Enter date lease committed to CA (effective date of CA or lease effective date, whichever is later); DE 1775 Action Code 256/DE 2910 Action Code 246; Action Remarks: CA serial number.	AUTOMATED NOTATION
	12.	If lease changes from nonproducing (terminable) status to producing (nonterminable) status, enter the following:	
	12a.	Enter Action Date (MANDATORY ACTION CODE): Date first production memorandum or other notice sent to MMS that lease changed from nonproducing status to producing status; DE 1775 Action Code 057/DE 2910 Action Code 102.	
Title Records	13.	Enter CA area on oil and gas plat or other appropriate status records.	
Docket	14.	File case files.	

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KeywordsIII. Invalidation of Approval of Unit/Communitization AgreementINVALIDATION
OF UNIT/
COMMUNITIZATION
AGREEMENTA. General

If the public interest requirement (PIR) identified in Manual Sections 3105.1 and 3107.4 is not met, approval of the unit/CA is declared invalid ab initio. Any lease segregation and extension of the segregated lease resulting from initial approval of a unit also are invalid. (See also Section I.A, above.)

The requirement that the PIR must be satisfied before any benefits can accrue to leases included in a unit/CA is contained in the Federal oil and gas regulations at 43 CFR 3105.2-3, 3107.1, 3107.3-2, 3107.4, 3183.4(b), and 3186.1 at Sections 9, 18(g), 20, and the "Certification-Determination." The determination whether the PIR has been met must be reviewed by Field Office fluid mineral operations in conjunction with any request for approval of a voluntary termination of a CA prior to the end of its fixed term, or when a CA automatically expires at the end of its term and a well has not been drilled to the communitized formation, or when a unit agreement terminates. The PIR determination also must be specifically addressed by the AO for fluid mineral operations prior to termination of a unit agreement. The PIR determination must be effected in a written notice to the operator that it is the finding of Field Office operations that the PIR has been met.

FIELD OFFICE
REVIEW THAT
PUBLIC INTEREST
REQUIREMENT
HAS BEEN MET
FOR UNIT/CA

The primary responsibility for determining whether the PIR for a unit or CA has been met, or has not been met, lies with the AO for fluid mineral operations, who is responsible for preparing the decision to the appropriate parties to the unit/CA concerning the PIR determination. If the determination is favorable (i.e., the PIR is met), the AO sends such notification to the unit/CA operator. If the determination is adverse (i.e., the PIR is not met), the Field Office fluid mineral operations must send a decision to the unit/CA operator providing the right of a State Director review of the adverse PIR determination. If the State Director affirms the AO's determination that the PIR has not been met, a decision must be issued with a right of appeal to IBLA (see Illustration 8). A copy of the decision that the PIR has not been met must be forwarded to the SO fluid lease adjudication.

FIELD OFFICE
OPERATIONS
RESPONSIBILITY

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KeywordsSTATE OFFICE
RESPONSIBILITY

The primary responsibility for actions taken on the affected leases, as a result of a determination that the PIR has not been met, lies with the SO fluid lease adjudication. It is important that Field Office fluid mineral operations provide a listing of all the leases affected by an adverse PIR determination.

If upon unit approval, the SO fluid lease adjudication had opted to delay processing the segregations and extensions of the involved leases pending the PIR determination, and the PIR is not favorable, the unit is not considered to be valid, and no further action concerning the involved leases is required. If the unit area had been noted on the oil and gas plat or other appropriate status records, such notation must be removed. However, if the leases were segregated and the segregated leases were extended at the time the unit was initially approved, proceed under Section III.B, below.

NOTE: If the PIR has not been met, use of the phrase "termination of the unit/CA" is not appropriate. A reference to the termination of a unit implies that the PIR has been met and that the affected leases are eligible for segregations, extensions, etc., which is not the case. When the PIR has not been met by the unit/CA, the unit/CA is deemed to not have existed, and no benefits whatever can accrue.

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B. Action on Committed Leases

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive from Field Office operations a copy of the determination decision declaring approval of the unit/CA invalid <u>ab initio</u> (see Illustration 8).	INVALIDATION NOTIFICATION
		<u>NOTE:</u> Ensure that the determination decision is final before proceeding, i.e., that the administrative review and appeal periods have expired.	
	2.	Access ALMRS Case Recordation unit/CA serial register page to determine the leases that were committed to the unit/CA.	
	3.	Request case files from Docket.	
Docket	4.	Charge case files to Adjudication.	
Adjudication	5.	File copy of decision determining unit/CA invalid <u>ab initio</u> in each lease case file. If the case file jacket was stamped to indicate the commitment status of the lease to the unit/CA, those markings either are to be crossed off or noted that the unit/CA approval was invalidated.	ACTION ON CASE FILES
	6.	Identify leases that were segregated, including segregated leases that were extended due to the segregation when the unit was approved.	
		<u>NOTE:</u> No segregation occurs when a lease is committed in part to a CA. Proceed to Step III.B.11, below, for processing an invalid CA.	

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Responsible

Official	Step	Action	Keywords
	7.	Prepare decision advising lessee that as a result of the invalidation of the unit approval, the lease segregation and extension of the segregated lease are also invalid, and the lease is consolidated as if no segregation based on the unit occurred (see Illustration 9).	UNIT SEGREGATION/ EXTENSION NULL AND VOID
		<u>NOTE:</u> Use special care to avoid use of the word "termination" in the decision.	
	8.	Combine each segregated lease with its base lease in the base lease case file.	CONSOLIDATION OF SEGREGATED LEASES
	8a.	The lands that were in the new segregated lease, now consolidated back into the base lease, will again have the same term as the base lease (and the same lease serial number as the base lease). If the base lease was nonproducing with a fixed expiration date at the time of the segregation, the consolidated lease will have the same expiration date.	

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Responsible

Official	Step	Action	Keywords
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8b. If the base lease was in its extended term by reason of production at the time of segregation, the consolidated lease will have the same extended term. Any activity that would affect the status of either the segregated lease or the base lease would affect the consolidated lease. For example, if production is established on either lease during the fixed term of the base lease, that production will hold the consolidated lease. Also, if actual drilling operations are diligently conducted over the expiration date of the base lease (on the base lease and not merely within the unit), the consolidated lease will have the benefit of the 2-year lease extension provided under 43 CFR 3107.1.

- | | | |
|---|---|-----------------------|
| 9 | Prepare accounting advices for MMS-DMD for the nonproducing leases showing the lease consolidation and proper expiration date. Each lease consolidation will require two accounting advices, one to cancel the segregated lease in the MMS automated system and one to adjust the acreage, etc., of the base lease (see Illustration 10). | ACCOUNTING
ADVICES |
|---|---|-----------------------|

Route decision for signing, mailing, Title Records notation, ALMRS Entry, and to Docket.

Send copy of invalidation decision and unit/CA map to Title Records.

Signing Official	12. Check and sign decision
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Title Records	13. Remove unit/CA notation from oil and gas plat or other appropriate status records. Also, for consolidated leases, remove segregated lease serial number and adjust the lease lines.
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Responsible Official	Step	Action	Keywords
ALMRS Entry	14.	Update leases to reflect lease consolidation due to invalidation of CA/unit, using the current data standards (see Illustration 11). Enter on both the segregated and base lease serial register pages:	AUTOMATED NOTATION
	14a.	Enter Action Date (MANDATORY ACTION CODE): Date unit approval invalidated (date of determination decision); DE 1775/2910 Action Code 691; Action Remarks: Unit/CA serial number.	
	15.	Enter on base lease serial register page: Enter Action Date (MANDATORY ACTION CODE): Date leases consolidated when unit approval invalidated (date of determination decision); DE 1775 Action Code 199/DE 2910 Action Code 972; Action Remarks: Serial number of segregated lease that was consolidated into this base lease. Adjust legal land description and acreage of the base lease.	
	16.	Make the following entry on the segregated lease serial page: Enter Action Date (MANDATORY ACTION CODE): Date case closed when unit approval invalidated (date of determination decision); DE 1775/2910 Action Code 970; Action Remarks: "INTO (<u>Serial number of base lease</u>)" that this lease was consolidated into.	

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KeywordsIV. Termination of Unit/Communitization AgreementA. General

When a unit or CA terminates, any lease committed to the agreement is entitled to a 2-year extension of the lease term from the effective date of the agreement termination unless the fixed term of the lease (i.e., lease has a definite expiration date) surpasses the length of that extension or the lease has expired, terminated, been relinquished, or cancelled before the agreement terminated. The AO for fluid mineral operations is responsible for notifying the SO fluid lease adjudication of the agreement termination. This notification must include a statement that the agreement had been validated (public interest requirement met). (See Sections I.A and III, above.) If the unit or CA was producing, the notification must also indicate for each lease involved whether that lease continues to receive production from any other source, i.e., production on the leasehold or from another agreement. The SO fluid lease adjudication is responsible for determining if the lease is entitled to the 2-year extension provided under 43 CFR 3107.4.

AGREEMENT
TERMINATION

EXAMPLE: Lease issued effective 2-1-85; normal expiration date 1-31-95; unit/CA terminated 7-1-94. New expiration date of lease is 7-1-96.

NOTE: If the PIR is not met, the agreement does not terminate, but rather the approval is invalidated. Thus, no benefits, such as the 2-year extension mentioned above, accrue to leases committed to such agreements. (See Section III.B, above, for action on leases involving invalidation of approval of an agreement.)

PUBLIC
INTEREST
REQUIREMENT
NOT MET

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B. Action on Committed Leases

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive from Field Office fluid mineral operations a copy of the termination letter sent to the unit/CA operator that indicates the unit/CA serial number, effective date of unit/CA termination, that a determination was made that the public interest requirement was met, and, if the agreement was producing, whether the leases involved will continue in production either from the leasehold or from another source (see Illustration 12).	TERMINATION NOTIFICATION
	2.	File termination letter in the unit/CA work file if such a file is maintained in the SO fluid lease adjudication. Determine affected leases and order case files from Docket. <i>UE</i>	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	Send copy of termination letter to Title Records.	
Title Records	5.	Remove unit/CA notation from oil and gas plat or other appropriate status records.	
Adjudication	6.	File a copy of the termination letter in each lease case file. If the case file jacket has been stamped to indicate the commitment status of the lease to the agreement, those markings either are to be crossed off or another notation is to added to indicate the effective date of the unit or CA termination.	ACTION ON CASE FILES

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C. Action on Lease Extensions

Responsible Official	Step	Action	Keywords
Adjudication	1.	Determine if a 2-year extension under 43 CFR 3107.4 is applicable to any of the leases involved. Only those leases committed to the agreement that are still in effect on the termination date of the unit/CA are entitled to the extension. (See <u>Aquarius Resources Corp.</u> , 64 IBLA 153 (1982).)	LEASE EXTENSIONS
	2.	Determine whether the lease account remains in producing (nonterminable) status or must be changed back to a nonproducing (terminable) status in the MMS automated system.	LEASE ACCOUNT TRANSFER
	2a.	For units or CA's where there was no preexisting production and operations did not lead to a first production memorandum, normally no transfer of lease account will occur in the MMS automated system, and the lease account will remain in nonproducing (non terminable) status.	
	2b.	If the terminated unit/CA had established production and the unit/CA termination resulted from discontinuance of such production, determine for each lease committed to the unit/CA whether the lease account remains in producing (nonterminable) status or is to be changed back to a nonproducing (terminable) status in the MMS automated system. Use the guidance in Appendix 4 and the following steps to determine if any change in the lease account status is required.	

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Responsible

Official	Step	Action	Keywords
	2c.	If the leasehold in the terminated unit/CA at any time contained a well capable of producing oil or gas in paying quantities, or continues to produce from a well on the leasehold or from another source, the termination of the unit or CA will not affect the lease account status. The lease account remains on royalty or minimum royalty status in the MMS automated system and is not changed to a nonproducing (terminable) status. (See example paragraphs 3 or 4 of Illustration 13.)	LEASE ACCOUNT REMAINS IN PRODUCING (NONTERMINABLE) STATUS
	2d.	If the leasehold does not or did not have a well that has ever been determined to be capable of producing oil or gas in paying quantities, the lease account in the MMS automated system is to be changed to a nonproducing (terminable) status. The rental is considered due as of the next anniversary date after the date the unit or CA terminated, or the date of last production from the unit/CA, whichever is earlier. This is true even if the lease was at one time part of a producing CA or participating area (PA), so long as the CA or PA well was not on this lease. If the rental due is not timely paid within 30 days notice of the change in the lease status, the lease will automatically terminate (see Appendix 4, Article D.)	RETURN LEASE ACCOUNT TO NONPRODUCING (TERMINABLE) STATUS

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Responsible

Official	Step	Action	Keywords
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NOTE: Occasionally, a well may be directionally drilled from one lease into another. In the event of directional drilling, the bottom hole location within the producible formation determines the lease to which drilling and/or production is attributable, not the surface location of the wellhead.

- 2e. If of a lapse of time occurs between the effective date of the unit/CA termination and the receipt by the SO fluid lease adjudication of the unit/CA termination notification, a lease that formerly was in a (minimum) royalty status in whole or in part may have reverted to a rental status without the lessee being made aware of the change in sufficient time to make the proper annual rental payment to the MMS. In such cases, the SO fluid lease adjudication is to check the MMS Business Information System (BIS) screens to determine whether sufficient rental was paid for the lease.

NOTE: The IBLA has ruled that a lease shall not terminate for nonpayment of rental until the lessee is made aware that the lease has reverted to a rental status and is allowed a reasonable time to tender the rental payment (30 days). (See Husky Oil Co., 79 I.D. 17, 5 IBLA 7 (1972).)

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Responsible

Official	Step	Action	Keywords
	2f.	If annual lease rental for the next anniversary date after termination of the unit/CA has not been paid or is deficient, allow the lessee 30 days from receipt of the decision advising of the unit/CA termination within which to pay the rental to the MMS (see example paragraph 5 of Illustration 13). The decision shall be sent by certified mail.	
	3.	Complete the decision to lessee giving notification of unit/CA termination, any lease extensions, and, if appropriate, the transfer of the lease account from producing (nonterminable) status to rental (terminable) status (see Illustrations 13 and 14).	
	3a.	When an extension is granted on a nonproducing lease, use example paragraph 2 of Illustration 13 and annotate a copy of the decision sent to the MMS-DMD to notify them of any other specific information required in the MMS automated system to change the lease account to a nonproducing (terminable) status.	EXTENSION OF NONPRODUCING LEASES
	3b.	When an extension is granted on a producing lease, use example paragraph 3 of Illustration 13. Send a copy of the decision to the MMS-DMD to advise of the lease extension end date.	EXTENSION OF PRODUCING LEASES
	3c.	If numerous leases are involved, see Illustration 14 for notification to the affected lessees.	MULTIPLE LEASES EXTENDED
	4.	Route decision for signing, mailing, ALMRS Entry, and to Docket.	
Signing Official	5.	Check and sign decision.	

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Responsible Official	Step	Action	Keywords
ALMRS Entry	6.	Enter appropriate actions in Case Recordation (see Illustration 15):	AUTOMATED NOTATION
	6a.	Enter Action Date (MANDATORY ACTION CODE): Effective date of unit agreement termination; DE 1775 Action Code 684/DE 2910 Action Code 336; Action Remarks: Unit serial number; <u>OR</u>	
	6b.	Enter Action Date (MANDATORY ACTION CODE): Effective date of CA termination; DE 1775 Action Code 642/DE 2910 Action Code 522; Action Remarks: CA serial number.	
	7.	If lease is extended, enter the following, using the current data standards:	
	7a.	Enter Action Date (MANDATORY ACTION CODE): Effective date of lease extension (date of unit/CA termination); DE 1775 Action Code 258/DE 2910 Action Code 235; Action Remarks: <u>THRU (Date to which is lease extended); AND</u>	
	7b.	Enter Action Date (MANDATORY ACTION CODE): New expiration date of lease; DE 1775/2910 Action Code 763.	
	8.	If lease remains in nonterminable (producing) status:	
	8a.	Enter Action Date (MANDATORY ACTION CODE): Lease paying minimum royalty; DE 1775/2910 Action Code 649; Action Remarks: Applicable minimum royalty rate per acre.	
	9.	If lease reverts to a rental (terminable) status:	

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Responsible

Official	Step	Action	Keywords
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9a. Enter Action Date (MANDATORY ACTION CODE): Date notice sent to MMS that lease account is changed from a producing (nonterminable) status to a nonproducing (terminable) status; DE 1775/2910 Action Code 058.

NOTE: See Appendix 5 for a listing of key action codes from the data standards that are to be used in ALMRS Case Recordation and Record System Release 1.0 for the leases that are involved in the various types of agreements and contracts.

Docket

10. File case file.

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KeywordsV. Unit ContractionA. General

Contraction of a unit is the process of reducing a unit area to the boundaries of the participating area (PA), usually occurring in accordance with the terms of the unit agreement. Most units automatically contract to the PA 5 years after the first PA is established. Termination of a PA also results in unit contraction.

UNIT
CONTRACTION

An elimination from a unit of the entire lease committed to that unit results in a 2-year extension of the lease under 43 CFR 3107.4, unless the lease term surpasses the length of that extension. (NOTE: Basically, the lease extension is the same as that resulting from a unit/CA termination.)

LEASE
ELIMINATED
IN ENTIRETY
FROM UNIT

Elimination of a portion of a committed lease from a producing unit plan does not cause or permit a segregation of the eliminated portion into a new and distinct lease. The eliminated portion of the lease and the portion that remains unitized continue to form one lease. The term of the eliminated portion continues coextensively with the term of the portion of the lease still committed to the unit plan.

LEASE ELIMINATED
IN PART FROM
UNIT IS NOT
SEGREGATED

Section 17(b) of the Mineral Leasing Act of 1920, as amended, 30 U.S.C. 226(m) (1988), contains no authority for the Department of the Interior to segregate a unitized lease into separate leases upon its partial elimination from a unit plan by reason of contraction of the unit area. (See Continental Oil Company, 70 I.D. 473 (1963), State National Bank of El Paso, Texas, Trustee, 12 IBLA 354 (1973), and Marathon Oil Company, et al., 78 IBLA 102 (1983).)

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B. Action on Leases Affected By Contraction

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive notification from Field Office fluid mineral operations that unit has contracted. The notice is to identify those leases entirely and partially eliminated and to include a new unit area map (Exhibit A) and a new schedule of leases Exhibit B). The notice also is to include all pertinent well information in order that the SO fluid lease adjudication is able to determine lease status for each lease involved, i.e., minimum royalty, rental, or production on a lease basis.	UNIT CONTRACTION INFORMATION RECEIVED
		<p><u>NOTE:</u> After September 30, 1991, the the agreement case abstract that has been entered into Case Recordation, is to be used in place of the older Exhibit B, Schedule of Leases, format. The use of this automated Exhibit B from the General Remarks area of the Case Recordation agreement case abstract applies to all references to Exhibit B in this text.</p>	
	2.	Send new Exhibit A to Title Records	
Title Records	3.	Adjust unit area on oil and gas plat or other appropriate status records.	
Adjudication	4.	Order case files from Docket for all leases within the unit boundary prior to the contraction. These leases are listed on the old Exhibit B in the unit folder.	
Docket	5.	Charge case files to Adjudication.	

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Responsible Official	Step	Action	Keywords
Adjudication	6.	<p>Review documents, including new unit area map and new Exhibit B, to verify which leases are within the contracted area in whole or in part and which leases are completely outside the new unit boundaries. If any discrepancies are evident, notify Field Office fluid mineral operations to resolve any problems.</p> <p>File evidence of unit contraction in the unit work folder if such a folder is maintained in the SO fluid lease adjudication.</p>	<p>VERIFICATION OF LEASES AFFECTED BY UNIT CONTRACTION</p>
	8.	Process the case files as follows:	ACTION ON CASE FILES
	8a.	<p><u>LEASES COMPLETELY OR PARTIALLY WITHIN THE UNIT THAT WERE NOT COMMITTED</u> - No adjudicative action is required. If case files for such leases were previously marked to indicate the existence of the unit, either remove the marking or stamp the case file jacket to indicate that the lease is no longer in the unit area, e.g., <u>(Name)</u> unit area contracted, effective <u>(Date)</u>. Route the case file for ALMRS Entry (see Step V.B.9c, below), and to Docket for filing.</p> <p><u>NOTE:</u> Sometimes such uncommitted leases are in the PA and, thus, are still within the contracted unit area. Such leases may be partially committed to the unit and receive some allocated production benefits (see Handbook 3180-1). In such instances, the case file jacket or case file should continue to indicate the relationship to the unit in the event of subsequent joinder.</p>	<p>UNCOMMITTED LEASES</p>

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Responsible

Official	Step	Action	Keywords
		<u>LEASES COMMITTED TO THE UNIT THAT ARE COMPLETELY WITHIN THE CONTRACTED UNIT AREA</u> - No adjudicative action is required. No change in ALMRS Entry is made, because the lease status is not affected. Return case files to Docket.	COMMITTED LEASES/ALL REMAINING IN UNIT
	8c.	<u>LEASES COMMITTED TO THE UNIT THAT ARE PARTIALLY WITHIN THE CONTRACTED (REMAINING) UNIT AREA</u> - Complete a "unit contraction information sheet" (see Illustration 16). No lease extension is authorized; the lease is not segregated. File the completed sheet in the case file. Route the case files for ALMRS Entry (see Step V.B.9b, below), and to Docket for filing.	COMMITTED LEASES/PART ELIMINATED
		<u>OPTIONAL:</u> Mark the case file jacket to indicate that part of the lands in the lease have been contracted out of the unit, e.g., PARTIALLY CONTRACTED OUT OF <u>(Name)</u> UNIT, EFFECTIVE <u>(Date)</u> .	
		<u>LEASES COMMITTED TO THE UNIT THAT ARE ENTIRELY ELIMINATED FROM UNIT</u> Remove any reference to unit commitment from the outside of the case file jacket. Determine if lease is entitled to an extension. If so, proceed to Section V.C, below.	COMMITTED LEASE/ENTIRELY ELIMINATED
		<u>OPTIONAL:</u> Stamp outside of case file: <u>(Name)</u> UNIT CONTRACTED, EFFECTIVE <u>(Date)</u> .	

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Responsible Official	Step	Action	Keywords
ALMRS Entry	9.	Enter appropriate actions in Case Recordation in accordance with the current data standards:	AUTOMATED NOTATION
	9a.	Enter Action Date (MANDATORY ACTION CODE): Date lease eliminated by contraction (effective date of contraction); DE 1775 Action Code 257/DE 2910 Action Code 226; Action Remarks: Unit serial number; <u>OR</u>	
	9b.	Enter Action Date (MANDATORY ACTION CODE): Date lease partially eliminated by contraction (effective date of contraction); DE 1775 Action Code 234/DE 2910 Action Code 253; Action Remarks: Unit serial number; General Remarks: Enter legal land description and acres in portion of lease eliminated from unit.	
	9c.	For uncommitted leases that were within the unit that are no longer in the contracted unit, remove the DE 1775 Action Code 262/DE 2910 Action Code 233 entry.	

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C. Action on Lease Extensions

Responsible Official	Step	Action	Keywords
Adjudication	1.	Prepare decision notifying the lessee of the lease extension (see Illustrations 17 and 18; Illustration 18 provides examples for multiple leases involved in a unit contraction).	LEASE EXTENSIONS
	2.	Determine whether the lease account is to remain in producing (nonterminable) status or is changed to nonproducing (terminable) status in the MMS automated system. (See Step IV.C.2, above, and Appendix 4 for situations that would result in the lease account reverting to a rental status.)	LEASE ACCOUNT TRANSFER
	3.	Provide a copy of the decision to the MMS-DMD, annotating the decision with any additional information required by the MMS, especially is the lease account reverts to rental (terminable) status.	
	4.	Route decision for signing, mailing, ALMRS Entry, and to Docket.	
Signing Official	5.	Check and sign decision.	
ALMRS Entry	6.	Enter appropriate actions in Case Recordation using the current data standards:	AUTOMATED NOTATION
	6a.	Enter Action Date (MANDATORY ACTION CODE): Effective date of lease extension (<u>Date unit contraction effective</u>); DE 1775 Action Code 258/DE 2910 Action Code 235; Action Remarks: THRU (<u>Date to which lease is extended</u>); <u>AND</u>	
	6b.	Enter Action Date (MANDATORY ACTION CODE): New expiration date of lease; DE 1775/2910 Action Code 763.	

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Responsible

Official	Step	Action	Keywords
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7. If lease remains in producing (nonterminable) status in the MMS automated system:

Enter Action Date (MANDATORY ACTION CODE): Lease paying minimum royalty; DE 1775/2910 Action Code 649; Action Remarks: Applicable minimum royalty rate per acre.

8. If lease reverts to a rental (terminable) status:

Enter Action Date (MANDATORY ACTION CODE): Date notice sent to MMS that lease account is changed from a producing (nonterminable) status to a nonproducing (terminable) status; DE 1775/2910 Action Code 058.

Docket

9. File case files.

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KeywordsVI. Approved Development ContractA. General

The Mineral Leasing Act of 1920, as amended by the Act of March 4, 1931 (46 Stat. 1523; 30 U.S.C. 184, 226) provides the authority for approval of development contracts between lessees of oil and gas leases and other parties whenever the conservation of natural products or the public convenience, necessity, or interests of the United States will be best served by such approval.

DEVELOPMENT
CONTRACT

Unlike unit areas, the area covered by a development contract is usually much larger and relatively unexplored, i.e., nonproductive areas with no known potential. Approval is authorized by 43 CFR 3105.3 and is predicated on the kinds of work that will be done over the term of the contract. The contract normally calls for definite exploratory objectives, a timetable, significant financial expenditures, and may require a definite drilling obligation.

Approval of the contract has no affect on the leases subject to the contract, except that the lease acreage is exempt from acreage limitations (see 43 CFR 3101.2-3). Drilling or production within the contract area does not extend the leases, except those upon which producing wells are located, nor are leases segregated or extended by reason of inclusion in the development contract area.

LEASES IN
DEVELOPMENT
CONTRACT EXEMPT
FROM ACREAGE
CHARGEABILITY

NOTE: Leases are not extended upon elimination from the development contract or termination of the contract.

Inclusion of a lease within the development contract area has no effect on future actions involving the lease, such as approval of assignments, terminations, relinquishments, etc.

The approved development contract is to be entered into the ALMRS Case Recordation in accordance with the current data standards for agreements.

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B. Action on Leases Subject to Contract Approval

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive copy from Field Office fluid mineral operations of the transmittal letter to the contractor with a schedule of the leases subject to the approved development contract (see Illustration 19).	APPROVED DEVELOPMENT CONTRACT INFORMATION RECEIVED
	2.	Determine all leases affected by the development contract approval, and request the case files from Docket.	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	Place a copy of the transmittal letter in each lease case file affected.	ACTION ON CASE FILES
		<u>OPTIONAL</u> : Stamp outside of case file: SUBJECT TO <u>(Name)</u> DEVELOPMENT CONTRACT, EFFECTIVE: <u>(Date)</u> .	
	5.	Route case files for ALMRS Entry and to Docket for filing.	
ALMRS Entry	6.	Enter Action Date (MANDATORY ACTION CODE): Date lease subject to approved development contract (effective date of development contract); DE 1775 Action Code 218/DE 2910 Action Code 243; Action Remarks: Serial number of development contract.	AUTOMATED NOTATION
Docket	7.	File case files.	

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C. Action on Leases Subject to Contract Termination

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive copy from Field Office fluid mineral operations of development contract termination letter sent to contractor, that indicates the effective date of its termination.	TERMINATION NOTIFICATION
	2.	Determine leases affected by the termination of development contract, and request case files from Docket.	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	File copy of termination letter in each affected lease case file. If the outside of the lease case file has been stamped to indicate that the lease is subject to the contract, remove such notations.	ACTION ON CASE FILES
	5.	Route case file for ALMRS Entry and to Docket for filing.	
ALMRS Entry	6.	Enter Action Date (MANDATORY ACTION CODE): Date development contract terminated; DE 1775 Action Code 261/DE 2910 Action Code 248; Action Remarks: Development contract serial number.	AUTOMATED NOTATION
Docket	7.	File case files	

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KeywordsVII. Approved Gas Storage AgreementA. General

A gas storage agreement provides for the subsurface storage of natural gas on Federal public domain or acquired lands, leased or unleased, whether such gas is actually produced from these Federal lands. Gas storage agreements allow Federal lands to be used to store natural gas during periods of excess production so that supplies will be available to meet peak demands. Various forms have been used for the approval of underground gas storage agreements over the years, however, use of a model form for new gas storage agreements shall be used, unless specific conditions require different terms (see Manual Section 3160-11). The approved gas storage agreement is to be entered in the ALMRS Case Recordation in accordance with the current data standards.

GAS STORAGE
AGREEMENT

Certain fees and payments are required for the subsurface storage of gas. An annual storage fee per net Federal mineral acre or fraction thereof is required for the lands in the gas storage area. Further, an injection fee and a withdrawal fee are required. The terms of the agreement provide for a renegotiation of the fees, except for certain older agreements (see Manual Section 3160-11).

Leases may be issued for unleased Federal lands containing a gas storage agreement. However, the specific formation or formations covered by the storage agreement must be excluded from the lands being offered for competitive sale (see Handbook 3120-1, Section III.C).

Any lease used for the underground storage of oil or gas shall be extended for the period of storage under an approved agreement. The obligation to pay annual lease rental continues during the extended period (see 43 CFR 3105.5-4).

LEASE EXTENDED
FOR PERIOD OF
GAS STORAGE
AGREEMENT

The inclusion of a portion of a Federal lease in a gas storage agreement shall not result in the segregation of the lease for the lands inside and outside the agreement area, as occurs with a unit agreement. Also, inclusion of a Federal lease in a gas storage agreement will not in itself result in the lease being placed in a minimum royalty status. And, unlike unit and communitization agreements, leases included in gas storage agreements are not eligible for a 2-year extension as a result of being eliminated from such an agreement or upon termination of such an agreement.

LEASES IN
GAS STORAGE
AGREEMENTS
NOT SUBJECT TO
SEGREGATION OR
LEASE EXTENSION

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B. Action on Leases in Agreement

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive copy from Field Office fluid mineral operations of the transmittal letter to the operator and a schedule of the leases affected (see Illustration 20).	GAS STORAGE AGREEMENT TRANSMITTAL LETTER
	2.	Request case files from Docket.	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	Place copy of transmittal letter in each lease case file affected and stamp outside of case file: COMMITTED TO <u>(Name)</u> GAS STORAGE AGREEMENT, EFFECTIVE <u>(Date)</u> .	ACTION ON CASE FILES
	5.	If the lease account is in nonproducing status in MMS automated system, prepare an accounting advice to indicate that the lease will continue as long as committed to a gas storage agreement, and transfer account to nonterminable status in the MMS automated system (see Illustration 21).	ACCOUNTING ADVICE - GAS STORAGE AGREEMENT
		<p><u>NOTE:</u> The lease will remain in effect for the duration of the gas storage agreement. If the lease is in a producing status, the lease is extended for the term of the gas storage agreement and so long thereafter as oil or gas, not previously produced (stored), is produced in paying quantities. If the lease is in a nonproducing status, the obligation to pay annual rental continues during this extended period.</p>	
	6.	Send gas storage agreement to Title Records.	
Title Records	7.	Enter gas storage agreement area on oil and gas plat or other appropriate status records.	

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Responsible Official	Step	Action	Keywords
Adjudication	8.	Route case files for ALMRS Entry and to Docket for filing.	
ALMRS Entry	9.	Enter appropriate actions in Case Recordation using the current data standards:	AUTOMATED NOTATION
	9a.	Enter Action Date (MANDATORY ACTION CODE): Date lease committed to gas storage agreement (effective date of gas storage agreement); DE 1775 Action Code 248/DE 2910 Action Code 245; Action Remarks: Gas storage agreement serial number.	
	9b.	Enter Action Date (MANDATORY ACTION CODE): Date lease account transferred from nonproducing (terminable) status to producing (nonterminable) status; DE 1775 Action Code 057/DE 2910 Action Code 102.	
Docket	10.	File case files.	

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C. Action on Leases Upon Agreement Termination

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive copy of gas storage agreement termination notification from Field Office fluid mineral operations.	TERMINATION NOTIFICATION
	2.	Determine lease or leases affected by termination of the agreement and order case files from Docket.	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	Send copy of termination notification to Title Records.	
Title Records	5.	Remove gas storage agreement notation from the oil and gas plat or other appropriate status records.	
Adjudication	6.	Place copy of termination notification in each lease case file affected. If the outside of the case file has been stamped to indicate that lease is within the agreement, remove such notations.	ACTION ON CASE FILES
	7.	Determine status of lease as a result of agreement termination.	
	7a.	If the lease was held solely by its inclusion in the gas storage agreement, termination of that agreement will cause the lease to expire (see Manual Section 3105.54). Prepare decision of notification of lease expiration (see Illustration 22).	GSA TERMINATED - LEASE EXPIRED
	7b.	If the lease is nonproducing and has passed the expiration date of its primary or fixed term, the lease expired simultaneously with the termination of the agreement. Notify the SO fluid lease adjudication personnel responsible for processing the termination and expiration list to ensure that the lease expiration is properly noted on the records.	

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Responsible

Official	Step	Action	Keywords
	7c.	If the lease is producing, the lease account remains in producing (nonterminable) status and no change in the MMS automated system is necessary.	GSA TERMINATED - LEASE STILL IN PRODUCING STATUS
	7d.	If the lease is nonproducing, and has not reached the end of its primary or fixed term, prepare an accounting advice showing the definite lease expiration date and change the lease to nonproducing (terminable) status in the MMS automated system (see Illustration 23).	GSA TERMINATED LEASE STILL IN PRIMARY/FIXED TERM ACCOUNTING ADVICE - GSA TERMINATED
	8.	Route case files for ALMRS Entry and to Docket for filing.	
ALMRS Entry	9.	Enter the required notations in Case Recordation using the current data standards:	AUTOMATED NOTATION
	9a.	Enter Action Date (MANDATORY ACTION CODE): Date gas storage agreement terminated; DE 1775 Action Code 260/DE 2910 Action Code 249; Action Remarks: Gas storage agreement serial number	
		Enter Action Date (MANDATORY ACTION CODE): Date lease account transferred from producing (nonterminable) status to nonproducing (terminable) status; DE 1775/2910 Action Code 058.	
		Enter Action Date (MANDATORY ACTION CODE): Update expiration date of primary or fixed term of lease; DE 1775/2910 Action Code 763.	

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KeywordsVIII. Consolidation of LeasesA. General

No specific provisions of the Mineral Leasing Act authorize the consolidation of leases. Nevertheless, the Department of the Interior has long considered the broad, general authority of the Secretary of the Interior to promote conservation of oil and gas resources to serve as a justification to consolidate leases where the basic goals of conservation of the resources will be furthered. Neither convenience nor efficiency for either the lessee or the Department provides adequate rationale for consolidating leases. However, many lease consolidations might result in easier administration for both the United States and the lessee/operator after the process has been completed.

CONSOLIDATION
OF LEASES

Historically, applications for lease consolidation were formally filed in a Land or State Office. However, the decision to approve or disapprove the consolidation of leases was based upon the recommendations of the U.S. Geological Survey (USGS) Conservation Division. Numerous prior decisions of the Department and the IBLA have clarified the general principle that applications for lease consolidation are generally treated with disfavor, and the burden to overcome this general proposition lies with the applicant. (See Marathon Oil Co. et al., 97 IBLA 102 (1987)).

Four main principles were considered by the USGS and the BLM before approval of any application for lease consolidation. These remain valid today:

GUIDELINES
FOR LEASE
CONSOLIDATION

1. The application must demonstrate that the consolidated lease will promote a valid conservation purpose, such as eliminating the problem of commingling production from several leases and the associated accounting complexity placed on the BLM and the MMS; elimination of some production-related facilities, such as pipelines, treating vessels, storage tanks, and meters, thereby resulting in increased safety, possibly less spillage, and reduced operating costs; or achieving a greater ultimate recovery of the resource by operating the leases as one. Additionally, the applicant must demonstrate that the benefits of consolidation cannot be accomplished through either unitization or communitization. Lease consolidation cannot be used as an attempt to hold nonproductive acreage or avoid additional development on leased lands.

PROMOTE
CONSERVATION
OF RESOURCE

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KeywordsRELINQUISH
NONPRODUCING
ACREAGE IN
LEASES

2. All nonproducing acreage within the leases to be consolidated must be relinquished as a condition of approval. If an operator has established plans for further development of adjacent undeveloped acreage in any of the leases to be consolidated and such development also would be logically part of the consolidated lease, those lands need not be relinquished, provided that the AO for fluid mineral operations is satisfied that the operator will most likely carry out the development. Otherwise, approval of lease consolidation is to be deferred until all drilling has been completed. Any relinquishment of acreage is to be accomplished concurrently with the approval of lease consolidation by the AO (e.g., by submittal of the relinquishment documents just prior to approval of the lease consolidation, after the BLM and the applicant have had an opportunity to examine both documents) to avoid the following scenarios:

a. Failure of the lessee to execute and file the relinquishment after approval of the lease consolidation; OR

b. An eventual determination to disapprove the consolidation after the lessee has lost acreage that might otherwise have been retained if the lessee had known that consolidation would not be approved.

The primary purpose of requiring relinquishment of acreage is to force the lessee or operator to maximize development on the leased lands or to allow other interested parties to acquire any undeveloped portion.

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Keywords

3. Basic record title interest within the consolidated lease must be identical in all the lands. If part of the leases to be consolidated will be relinquished, the record title interest in such relinquished lands does not need to match that of the lands to be consolidated. When relinquishment is appropriate, all lessees for all lands in the leases to be consolidated will have to either join in the application for lease consolidation or positively concur by formal relinquishment of that acreage in which they hold an interest. Working interest holdings, i.e., operating rights (subleases), ideally and normally also are to be identical. Such uniformity is not required, however, provided that the applicant for consolidation provides adequate concurrence to the consolidation from operating rights holders of the involved leases together with proof that such holders do not have an objection to any required relinquishment of lease acreage. Since the BLM case files no longer provide an abstract of the precise working interest holdings in leases, information from the applicant as to such holdings is acceptable in the absence of an indication that a purported working interest owner, or its predecessor by death, merger, or name change, has never had an interest in the lease either as lessee or approved assignee/transferee. Any review of lease case files in this regard needs to be only cursory; where the lease ownership is complex, the applicant for lease consolidation is to be required to provide a breakdown of the chain of title so that the BLM can easily compare the holdings with those documents contained in the case files.

RECORD TITLE
INTEREST MUST
BE IDENTICAL
IN LANDS TO BE
CONSOLIDATED

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Keywords

4. Upon approval of a lease consolidation, the resulting lease is to be given the serial number of the oldest lease consolidated. The consolidated lease shall carry the anniversary date (issuance date) of the oldest lease. If all the leases to be consolidated carry the same anniversary date, the lowest serial number is to be assigned to the newly consolidated lease. To the extent that the leases being consolidated contain lease stipulations, the stipulations shall be retained in the consolidated lease as to the specific lands in each original lease to which the stipulations applied. The rental rate for the consolidated lease shall be that of the consolidated lease carrying the highest rental rate; the minimum royalty rate also shall be similarly calculated. The production royalty rate on the consolidated lease normally also is to be that of the individual lease with the highest royalty rate. In some instances, with older leases having a variable royalty, i.e., step-scale or sliding-scale royalty, an economic evaluation by the Field Office fluid mineral operations must be made to determine the royalty rate most appropriate. In such cases, ensure that the lease consolidation will not reduced the royalty rate. That royalty rate which will provide the greatest return to the United States, considering discounted cash flow principles and the eventual decline in production rates, is to be selected in complex cases. Extreme care is to be taken when a proposal is made to consolidate leases with different royalty rates, since the effect of the consolidation may be to increase the number of marginally producing wells on a fixed royalty with high producers on a variable royalty, thus lowering the average production below the threshold for a higher royalty return to the United States. If such a result is at all probable, the consolidation is not to be approved; commingling is preferable as long as a reasonable agreement can be reached on the percentage of production to be attributed to each well and/or producing zone. If the applicant for lease consolidation is willing to agree to a royalty rate that will result in a royalty return determined to be at least equal to that which the United States would otherwise receive without consolidation, consolidation may be approved. In such unusual cases, the Office of the Solicitor is to be consulted prior to approval to ensure that the resulting royalty rate is compatible with the provisions of the mineral leasing laws.

SERIAL NUMBER
AND ANNIVERSARY
DATE OF THE
OLDEST LEASE

RETAIN LEASE
STIPULATIONS
FOR LANDS IN
CONSOLIDATED
LEASE

RENTAL AND
ROYALTY RATE

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Keywords

As indicated above, lease consolidation normally will be approved only when all of the leases to be consolidated are already in a producing status. Favorable recommendations for consolidation shall be limited to adjacent productive leases; the leases are to be adjoining, not merely cornering. Requests for lease consolidation based upon proposed drilling plans can normally accomplish the lessee's aim of lease preservation through communitization or unitization instead. Lease consolidation shall not be approved when communitization or unitization provides an acceptable alternative, even if the paperwork burden on the proposing operator is greater.

LEASE
CONSOLIDATION
FOR PRODUCING
AND ADJACENT
LEASES

There have been, however, a few cases where assignees of either producing or nonproducing leases have been able to demonstrate that an approved assignment unintentionally failed to embrace all the leased lands because of some typographical error by company personnel. In such cases, the assignee may desire to consolidate leases that were originally planned or requested as one lease in order to retain the original rights and benefits of the lease as issued. In such cases, the AO may approve consolidation of the assigned and retained portions of the lease (once the record title is the same for both leases), provided that the approved unintentional partial assignment did not in any manner effect the terms of either the assigned or retained leases (e.g., when a partial assignment out of a lease extended by production causes a 2-year extension of the nonproducing retained or assigned lease). (See Handbook 3107-1.)

CONSOLIDATION OF
UNINTENTIONAL
ASSIGNED AND
RETAINED PARTS
OF LEASE

Because of the proliferation of small-acreage lease assignments in the mid-1980's that were filed and approved by the BLM prior to passage of the Federal Onshore Oil and Gas Leasing Reform Act of 1987, some lease developers that have obtained holdings in a relatively compact form in some of these small leases may seek consolidation of such leases. Consolidation of these small-acreage leases normally is not to be approved, since the carving up of the original larger lease was a deliberate, intentional act. Instead, communitization would ordinarily be adequate to allow lease development and conservation of the resources.

Leases segregated as a result of a unit approval, when the unit agreement is later deemed invalid for not having met the public interest requirement, are required to be consolidated into the original lease as if no segregation occurred (see Section III.B, above).

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B. Action on Application to Consolidate

Responsible Official	Step	Action	Keywords
Field Office Operations or Adjudication	1.	Receive written or oral inquiry about the possibility of consolidating leases. Respond using the guidance contained above, by either discussing with the potential applicant the principles indicated, or preparing a written response. If a written response is made, as appropriate, enclose a copy of the above general discussion, as may be amended by any supplemental directives.	INFORMAL INQUIRY - LEASE CONSOLIDATION
Receiving Official	2.	Receive formal application for lease consolidation. Date-time stamp and send to Docket.	APPLICATION FOR LEASE CONSOLIDATION
Docket	3.	Pull lease case files and send to Adjudication.	
Adjudication	4.	Review application and the affected case files for conformance with the principles discussed under Section VIII.A, above. Ensure that the leases are producing, the record title of the consolidated lease will be uniform, and that the lease terms, rental rates, and royalty rates, and any other provisions required by law can be reconciled. For instance, the minimum royalty rate of a lease issued prior to enactment of the Reform Act is set by law at \$1 per acre, whereas the minimum royalty rate for a Reform Act lease is not less than the rental which otherwise would be required for the lease year (not less than \$1.50 per acre per year for the first through fifth lease years, and not less than \$2 per acre for each year thereafter). Such minimum royalty rates cannot be reconciled, thus, leases issued prior to the Reform Act cannot be consolidated with leases issued under the Reform Act. Also, the acreage in the consolidated lease cannot exceed the maximum acreage required by law or regulation.	INITIAL REVIEW OF APPLICATION TO CONSOLIDATE LEASES

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Responsible Official	Step	Action	Keywords
	5.	If the leases are producing and the differences can be reconciled, request a report from the Field Office fluid mineral operations on whether the consolidation would promote conservation of the resources, based on the principles discussed in Section VIII.A, above.	REQUEST FIELD OFFICE REPORT
	6.	If the Field Office report is favorable, prepare a decision approving the consolidation (see Illustration 24).	LEASE CONSOLIDATION APPROVAL
	7.	Combine the leases in the case file of the oldest lease consolidated. If reconciliation of lease terms and stipulations or rental and royalty rates was required, ensure appropriate adjustments as discussed in Step VIII.A.4, above, are made in the ALMRS Entry.	
	8.	Route decision for signing, mailing, Records notation, ALMRS Entry, and to Docket.	
Signing Official	9.	Check and sign decision.	
Title Records	10.	Adjust lease lines and remove all serial numbers except the consolidated lease serial number from the oil and gas plat or other appropriate status records.	
Adjudication	11.	If the record title is not identical, or differences in terms of the leases, etc., cannot be reconciled, or Field Office fluid mineral operations report is not favorable, reject the application (see Illustration 25).	LEASE CONSOLIDATION REJECTION
	12.	Route decision for signing, mailing, ALMRS Entry, and to Docket.	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Responsible

Official	Step	Action	Keywords
ALMRS Entry	13.	<p>Make the appropriate entry for each lease covered by the application for lease consolidation using the current data standards:</p> <p>Enter Action Date: Date lease consolidation application rejected; DE 1775 Action Code 718/DE 2910 Action Code 393 (decision issued); Action/General Remarks: Reason for rejection of application to consolidate leases.</p> <p>Enter Action Date (MANDATORY ACTION CODE): Date leases consolidated; DE 1775 Action Code 199/DE 2910 Action Code 972; Action Remarks: Serial number of lease consolidated into this lease (see Illustration 26).</p> <p>13c. Enter Action Date (MANDATORY ACTION CODE): Date lease case closed due to approval of lease consolidation; DE 1775/2910 Action Code 970; Action Remarks: "INTO (<u>Serial number of lease into which this lease was consolidated</u>).</p>	AUTOMATED NOTATION
Docket	14.	File case files.	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Letter Transmitting Approved Unit Agreement
(Secondary Recovery Unit)



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3105 (Office Code)

Unit Operator
(Address)

Dear _____:

The (Name) Unit Agreement, (County and State), is approved on (Date unit agreement approved), and is effective as of (Effective date of agreement). This agreement has been designated number (Unit serial number).

The basic information is as follows:

1. The unit agreement area was designated for secondary recovery purposes under the unit plan regulations of August 12, 1983, by letter dated _____.
2. Only the Madison Formation, as defined in Section 3.2 of the unit agreement, is unitized.
3. The unit area embraces 14,501.33 acres, more or less, of which 10,818.92 acres (74.60 percent) are Federal lands, 640.00 acres (4.41 percent) are State lands, and 3,042.41 acres (20.99 percent) are patented lands.
4. The following Federal leases embrace lands within the unit area:

(List by serial number of lease; indicate by an * those leases that are to be considered for segregation; indicate if the serial number is for a lease offer.)

* Indicates fully and effectively committed lease to be considered for segregation pursuant to Section 18(g) of the unit agreement, Public Law 86-705, and 43 CFR 3107.3-2.

The unit operator has advised that it is not the intent of the parties to this agreement to horizontally segregate any Federal lease.

5. All lands and interests are fully committed by State of (Name) Order, Order No. _____, dated (Date of order).

In view of the foregoing commitment status, effective control of operations within the unit area is assured. We are of the opinion that the agreement is necessary and in the public interest and is advisable for the purpose of more properly conserving natural resources.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Letter Transmitting Approved Unit Agreement

(Secondary Recovery Unit)

2

6. The following Communitization Agreements (CA's), producing unitized substances, are located within this Unit Area:

(Listing of CA serial numbers.)

Section 12.10 of the Unit Agreement states "...when two or more leases, or part or parts thereof have been combined into a single Tract, the percentage participation assigned to such Tract shall for all purposes be divided among the separate leases, or part or parts thereof, that have been put into such Tract, in proportion to the number of surface acres of the leases, or part or parts thereof contained in such Tract to the total surface acres contained in said Tract." This section adequately protects the individual leases within the CA's, therefore, we will advise the BLM District Office to terminate these CA's. The termination date for the above mentioned CA's will be the effective date of the unit agreement.

Copies of the approved agreement are being distributed to the appropriate Federal offices. You are requested to furnish all interested parties with evidence of this unit agreement approval.

Sincerely,

Authorized Officer

1 Enclosure

1 - Copy of Approved Unit Agreement

Distribution:

SO Fluid Lease Adjudication w/enclosure
Field Office Operations w/enclosure (if appropriate)
SMA w/ enclosure (if other than BLM)
MMS-DMD, MS 3110 w/enclosure

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

EXHIBIT B
To Unit Agreement
BLACKWATER UNIT
Chaves County, New Mexico

Tract #	Land Description	No. of Acres	Serial No. & Exp. Date	Basic Royalty Ownership	Lessee of Record	Overriding Royalty Owners	Working Interest Owners
1.	T9S-R22E Sec. 19: Lots 1 thru 4, E2W2, E2	592.50	NM-36714 3/1/91	USA 12.5%	Yates Petroleum Corporation - 100%	None	Yates Petroleum Corporation - 100%
2.	T9S-R22E Sec. 6: Lots 1 thru 7 S2NE, SENW, E2SW, SE Sec. 7 Lots 1 thru 4, E2W2, E2 Sec. 18: Lots 1 thru 4, E2W2, E2	1,987.25	NM-36715 3/1/91	USA 12.5	Yates Petroleum Corporation - 100%	None	Yates Petroleum Corporation - 100%

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

(Unleased Federal Lands)

EXHIBIT B
To Unit Agreement
BLACKWATER UNIT
Chaves County, New Mexico

Tract #	Land Description	No. of Acres	Serial No. & Exp. Date	Basic Royalty Ownership	Lessee of Record	Overriding Royalty Owners	Working Interest Owners
11.	T9S-R22E Sec. 3: S2N2, S2 Sec. 4: S2N2, S2 Sec. 5: S2N2, S2	1,440.00	NM-66695 9/1/96	USA 12.5%	W.W.Kaufman - 100%	None	W.W.Kaufman 100%
12.	T9S-R22E Sec. 4: SWNE, SENW NESW, NWSE	160.00	Unleased	USA 12.5	Unleased		
13.	T9S-R21E Sec. 14: E2SE	80.00	Unleased	USA 12.5	Unleased		

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

PCN: OGO80P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/ 3/94
02-25-1920;041STAT0437;30USC181 CASE TYPE SERIAL NUMBER
O&G SECONDARY UNIT 318220 NMNM 82050 X
COMMODITY- OIL & GAS

NAME AND ADDRESS

KELT OIL & GAS INC	BLM ROSWELL DO
363 BELT SUITE 1000	1717 W SECOND
HOUSTON TX 77060	ROSWELL NM 882012019
OPERATOR 100.00000 %	OFFICE OF RECORD 0.00000 %

DESCRIPTION OF LAND

T. 8 S. R. 30 E.	NEW MEX PM	CHAVES	COUNTY, NM
ROSWELL	DISTRICT	ROSWELL	RESOURCE AREA
SEC. 2: LOTS 4			
ALIQ SWNW, SW, W2SE, SESE			
SEC. 3: LOTS 1			
ALIQ S2NE, SENW, S2			
SEC. 4: S2NW, S2			
SEC. 5: SENE, SE			
SEC. 8: E2			
SEC. 9: ALL			
SEC. 10:			
SEC. 11:			
SEC. 12: ALIQ W2			
SEC. 13: NW, W2SW, NESW			
SEC. 14: ALL			
SEC. 15:			
SEC. 16:			
SEC. 17:			
SEC. 20: ALIQ N2NE			
SEC. 21: ALL			
SEC. 22:			
SEC. 23: ALIQ N2, SW, W2SE, NESE			
SEC. 26: W2NE, NW, W2SW, NESW			
SEC. 27: ALL			
SEC. 28:			
SEC. 29: ALIQ E2, E2W2			
SEC. 32: E2, E2W2, W2SW			
SEC. 33: ALL			

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

PCN: OG080P1
FORM 1274-18DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

PAGE: 2

CASE ABSTRACT AS OF: 1/ 3/94
 02-25-1920;041STAT0437;30USC181 CASE TYPE SERIAL NUMBER
 O&G SECONDARY UNIT 318220 NMNM 82050 X
 COMMODITY- OIL & GAS

DESCRIPTION OF LAND

NEW MEX PM
 T. 8 S. R. 30 E. CHAVES COUNTY, NM
 ROSWELL DISTRICT ROSWELL RESOURCE AREA
 SEC. 14: ALIQ W2, W2E2, NENE

T. 9 S. R. 30 E.
 SEC. 3: LOTS 2, 3, 4
 ALIQ SWNE, S2NW, SW, NWSE
 SEC. 4: ALL
 SEC. 5:
 SEC. 6: LOTS 1, 2
 ALIQ S2NE, SENW, NESW, SE
 SEC. 7: NE
 SEC. 8: NE, N2NW
 SEC. 9: NW

15,321.083 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
3/03/1989	387	CASE ESTABLISHED	DESIGNATION RECEIVED
3/03/1989	500	GEOGRAPHIC NAME	CATO UNIT;
4/14/1989	519	AGRMT/EXPANSION DESIG	AGREEMENT
11/07/1989	680	AGREEMENT FILED	
11/27/1989	334	AGRMT APPROVED	
12/01/1989	516	FORMATION	SADR; SAN ANDRES
12/01/1989	525	ACRES-NONFEDERAL	1120.21;7.31% ST
12/01/1989	525	ACRES-NONFEDERAL	5360.79;34.98% FEE
12/01/1989	526	ACRES-FED INT 100%	8840.83;57.73%
12/01/1989	868	EFFECTIVE DATE	/A/ UNIT AGREEMENT
12/04/1989	974	AUTOMATED RECORD VERIF	AAL/AN

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

PCN: OG080P1
FORM 1274-18DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

PAGE: 3

CASE ABSTRACT AS OF: 1/ 3/94
 02-25-1920;041STAT0437;30USC181 CASE TYPE SERIAL NUMBER
 O&G SECONDARY UNIT 318220 NMNM 82050 X
 COMMODITY- OIL & GAS

ACTIONS
 DATE CODE TAKEN REMARKS

6/23/1993 600 RECORDS NOTED

GENERAL REMARKS

02 /A/ EXHIBIT B EFFECTIVE 12/01/1989
 03 LEASE SERIAL NO TR# PH 1% PH 2% PH 3%
 04 NMNM 022636# 1 11.06007 10.02344
 05 NMNM 024136A 2 0.15392 0.37885
 06 NMNM 025585B# 3 0.43380 0.47445
 07 NMNM 071955 4 0.01305 0.01305
 08 NMNM 071955 5 3.50831 1.47668
 09 NMNM 073394D 6 1.42160 1.82524
 10 NMNM 0142233 7 2.79586 2.90286
 11 NMNM 0142321 8 0.37734 0.41255
 12 NMNM 0155254D 9 4.64729 4.86066
 13 NMNM 0155494# 10 2.10240 2.49892
 14 NMNM 0155494A 11 0.08117 0.08847
 15 NMNM 0155494A 12 1.41276 3.55823
 16 NMNM 0177517 13 3.23329 4.18767
 17 NMNM 017517 14 0.72034 0.34783
 18 NMNM 0254700 15 1.16749 0.82053
 19 NMNM 0276225 16 1.28715 2.06028
 20 NMNM 0346362 17 1.03897 2.10919
 21 NMNM 0354427A 18 8.84699 5.05290
 22 NMNM 0403706 19 3.41729 2.46240
 23 NMNM 0444628 20 1.23271 1.53655
 24 NMNM 9047A 21 0.16958 0.28160
 25 NMNM 25478 22 3.87497 1.78492
 26 NMNM 29224A 23 0.01305 0.01305
 27 NMNM 57637# 24 0.05643 0.05068
 28 NMNM 58931 25 0.07097 0.12043
 29 NMNM 60347 26 0.04848 0.05070

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS
 Example of Exhibit B of an Approved Unit Agreement

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 4
 FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/ 3/94
 02-25-1920;041STAT0437;30USC181 CASE TYPE SERIAL NUMBER
 O&G SECONDARY UNIT 318220 NMNM 82050 X
 COMMODITY- OIL & GAS

 GENERAL REMARKS

30	NMNM	60347	27	0.01305	0.01305
31	NMNM	63352	28	0.16009	0.19806
32	NMNM	65413	29	0.02630	0.0263
33	NMNM	65413	30	0.02832	0.02758
34	NMNM	65963	31	0.12205	0.12560
35	NMNM	69642	32	0.54622	0.35185
36	NMNM	78255	33	0.01337	0.01326
37	NMNM	78255	34	0.01360	0.01341
38	UNLEADED FED		35	0.26715	0.36566
39	STATE		36	0.09821	0.10353
40	STATE		37	2.68212	9.96786
41	STATE		38	0.08411	0.08773
42	STATE		39	1.31499	0.85724
43	FEE		40	0.18775	0.29397
44	FEE		41	2.77365	4.36680
45	FEE		42	3.34529	1.35607
46	FEE		43	21.50210	17.11381
47	FEE		44	0.04161	0.07284
48	FEE		45	0.01351	0.01336
49	FEE		46	0.01453	0.01404
50	FEE		47	6.93474	4.48673
51	FEE		48	0.12840	0.20904
52	FEE		49	1.20372	4.28831
53	FEE		50	0.35461	0.47382
54	FEE		51	1.50527	1.34461
55	FEE		52	0.46376	0.32518
56	FEE		53	0.96530	1.19478
57	FEE		54	0.13589	0.21408
58	FEE		55	0.05229	0.05226
59	FEE		56	0.05221	0.05221
60	FEE		57	1.67921	2.49345
61	FEE		58	0.05221	0.05221
62	FEE		59	0.01305	0.01305

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Example of Exhibit B of an Approved Unit Agreement

PCN: OG080P1
FORM 1274-18DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

PAGE: 5

CASE ABSTRACT		AS OF: 1/ 3/94
02-25-1920;041STAT0437;30USC181	CASE TYPE SERIAL NUMBER	
O&G SECONDARY UNIT	318220 NMNM	82050 X
COMMODITY- OIL & GAS		

GENERAL REMARKS

63 FEE 60 0.02611 0.02611
 64 TR1,8S,30E,S22,SW,S23,SW,N2SE,SWSE,S27,ALL,S34,W2;
 65 TR3,9S,30E,S3,LOT2,3,4,SWNE,S2NW,SW,NWSE;
 66 TR10,8S,30E,S9,NE,S22,S2NW;
 67 TR24,8S,30E,S13,W2SW,SENW;
 68 TR32,9S,30E,S7,S2NE;
 69 ALL LANDS AND INTEREST ARE COMMITTED BY STATUTORY
 70 UNITIZATION ORDER NO R-9028.
 71 PHASE I CONTINUES UNTIL 447,000 BARRELS OF OIL HAVE
 72 BEEN PRODUCED OR 3,000,000 BARRELS OF INCREMENTAL
 73 (MAKEUP) WATER HAVE BEEN INJECTED INTO UNIT WELLS.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision of Oil and Gas Lease Segregation



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3107 (Office Code)

	DECISION	
Lessee	:	Serial No. Base Lease:
(Address)	:	
	:	New Serial No. Assigned
	:	Segregated Portion:
	:	
	:	Unit Agreement:
	:	Effective Date:
	:	

Oil and Gas Lease Segregated
OPTIONAL: Lease Term Extended

Part of the lands in your lease (Serial number) has been committed to the (Serial number and name) unit agreement and, as provided in this agreement, the lease is hereby segregated, effective (Date). The lease covering the land within the unit area retains its present serial number. The lands outside the unit area receive the new serial number (Serial number).

(FOR EXPLORATORY UNITS ONLY, USE THIS PARAGRAPH IF THE UNIT APPROVAL HAS NOT YET BEEN VALIDATED AT THE TIME OF PROCESSING THE LEASE SEGREGATION: If a request is received for voluntary termination of the unit agreement or the agreement is invalidated because the public interest requirement has not been satisfied, i.e., if actual drilling operations are not commenced and diligently prosecuted in accordance with the terms of the agreement, the lease segregation and any extension granted for the new lease shall be declared invalid ab initio in accordance with 43 CFR 3183.4(b). If the public interest requirement is not met, the segregated lands will be consolidated into the base lease with the unitized lands. No operations will be approved on the segregated lands past the expiration date of the original lease until the public interest requirement has been met.)

Base Lease	Segregated Lease
Lands committed to unit agreement	Lands outside the unit area
Serial No.:	Serial No.:
Acreage:	Acreage:

1. _____ The unitized lease originally issued (Effective date); therefore, expiration date of the segregated lease is (Date).
2. _____ Lease (Segregated lease serial number) will continue in effect, unless relinquished, through (Date), and so long thereafter as oil or gas is produced in paying quantities (Regulation 43 CFR 3107.3-2).

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision of Oil and Gas Lease Segregation

2

3. ____ The base lease was in its extended term by production at the time of segregation. The production is now only on the unitized lease; therefore, the segregated lease will continue so long as the base lease exists, and so long thereafter as oil or gas is produced in paying quantities from the segregated lease.
4. ____ The base lease was in its extended term by production at the time of segregation. The production is now only on the segregated lease; therefore, the unitized base lease will continue so long as the segregated lease exists, and so long thereafter as oil or gas is produced in paying quantities from the unitized base lease.

(NOTE: This space may be used for additional miscellaneous items for which notification is appropriate, e.g., rental rate reduction when either the segregated or unitized lease contains no KGS lands, bond requirement, lease account transfers, etc.)

OPTIONAL: Rental for the segregated lease for the lease year beginning (Date) has been satisfied under the base lease. Annual rental due for the next lease year must be timely paid on or before the anniversary date to the Minerals Management Service, Royalty Management Program, P.O. Box 5640, Denver, Colorado 80217.

OPTIONAL: The segregated lease is extended to (Date) and so long thereafter as oil or gas is produced in paying quantities.

OPTIONAL: This continuation depends upon timely receipt of rental payments as required by the regulations at 43 CFR 3103.2-2. Failure to pay the rental timely will result in automatic termination of the lease.

OPTIONAL: The segregated lease is in a producing status and royalty (or minimum royalty) will continue to be due. This extension has been granted in the event production ceases before the expiration date of the 2-year lease extension.

IN ALL FUTURE CORRESPONDENCE, PLEASE REFER TO
THE CORRECT LEASE SERIAL NUMBER.

Authorized Officer

Distribution:
Lessee(s)
Unit Operator
SMA (if other than BLM)
MMS-DMD, MS 3110
Surety (if applicable)
Fluid Mineral Operations (if appropriate)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Lease

Committed to Unit

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE
FORM 1274-18 BUREAU OF LAND MANAGEMENT
CASE ABSTRACT AS OF: 1/24/94
12-22-1987;101STAT1330;30USC181 ET SEO CASE TYPE SERIAL NUMBER
O&G LSE COMP PD -1987 312021 NMNM 87227
COMMODITY- OIL & GAS

NAME AND ADDRESS

MERRION OG CORP
BOX 840
FARMINGTON NM 87499
LESSEE 100.00000 %

DESCRIPTION OF LAND

NEW MEX PM
T. 19 N R. 4 W SANDOVAL COUNTY, NM
ALBUQUERQUE DISTRICT RIO PUERCO RESOURCE AREA
ALIO SESE BUREAU OF LAND MGMT
SEC. 12: SWSW BUREAU OF LAND MGMT
LANDS RELINQUISHED, WITHDRAWN, REJECTED, SEGREGATED OR ASSIGNED
SEC. 11:FF W2,NESE,W2SE,SEGR BUREAU OF LAND MGMT
-----END LANDS RELINQUISHED-----
80.000 ACRES

ACTIONS DATE	CODE	TAKEN	REMARKS
10/15/1991	387	CASE ESTABLISHED	9110073
10/16/1991	191	SALE HELD	
10/16/1991	267	BID RECEIVED	\$1040.00;
10/16/1991	392	MONIES RECEIVED	\$1040.00;
11/13/1991	237	LEASE ISSUED	
12/01/1991	496	FUND CODE	45003
12/01/1991	530	RLTY RATE - 12 1/2%	
12/01/1991	868	EFFECTIVE DATE	
1/01/1992	700	LEASE SEGREGATED	INTO NMNM 89870
1/01/1992	232	LEASE COMMITTED TO UNIT	NMNM85753X:EAGLE MESA
1/27/1992	600	RECORDS NOTED	
11/03/1992	974	AUTOMATED RECORD VERIF	RAYO/RAYO
11/25/1992	963	CASE MICROFILMED	CNUM 569,064
8/27/1993	600	RECORDS NOTED	
11/30/1996	763	EXPIRES	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Lease

Segregated by Unit Approval

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/13/94
12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
O&G LSE COMP PD -1987 312021 NMNM 88737
COMMODITY- OIL & GAS

NAME AND ADDRESS

YATES PETRO CORP		YATES DRLG CO	
105 S 4TH ST		105 S 4TH ST	
ARTESIA	NM 88210	ARTESIA	NM 88210
LESSEE	4.00000 %	LESSEE	32.00000 %
ABO PETROLEUM CORP		MYCO INDUSTRIES INC	
105 S 4TH ST		105 S 4TH ST	
ARTESIA	NM 88210	ARTESIA	NM 88210
LESSEE	32.00000 %	LESSEE	32.00000 %

DESCRIPTION OF LAND

NEW MEX PM
T. 8 S, R. 30 E, CHAVES COUNTY, NM
ROSWELL DISTRICT ROSWELL RESOURCE AREA
SEC. 13:ALIQ SESW BUREAU OF LAND MGMT
40.000 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
12/16/1990	387	CASE ESTABLISHED	
1/01/1991	496	FUND CODE	05;145003
1/01/1991	530	RLTY RATE - 12 1/2%	
1/01/1991	868	EFFECTIVE DATE	
4/08/1992	209	CASE CREATED BY SEGR	OUT OF NMNM85897
4/08/1992	974	AUTOMATED RECORD VERIF	SSP/JS
7/02/1992	600	RECORDS NOTED	
11/13/1992	111	RENTAL RECEIVED	\$40.00;23/0000000424
11/13/1992	111	RENTAL RECEIVED	\$20.00;21/0000000236
11/12/1993	111	RENTAL RECEIVED	\$60.00;21/49668
12/31/1995	763	EXPIRES	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Transmittal Letter for

Approved Communitization Agreement



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3105 (Office Code)

CA Operator
(Address)

Dear _____

Re: Communitization Agreement (CA) No. (Serial number), (Description of lands covered by agreement)

Enclosed is an original of the approved CA involving (Number) acres of Federal land in Lease (Serial number) and (Number) acres of non-Federal land, (Field, County, and State), comprising a (Number)-acre spacing unit, with (Name) as operator.

The agreement communitizes all rights as to natural gas and associated liquid hydrocarbons producible from the (Formation communitized) underlying (Description of lands covered by agreement). This agreement was approved on (Date of approval), effective as of (Effective date), and has been designated (CA serial number).

Form MMS-3160, "Monthly Report of Operations," must be submitted each month for this CA, beginning with the month in which drilling operations commence, to the Minerals Management Service (MMS), Royalty Management Program. Those reports sent via the U.S. Postal Service must be mailed to: MMS, Royalty Management Program, P.O. Box 17110, Denver, CO 80217. Those reports forwarded through a courier service are to be addressed to: MMS, Royalty Management Program, Document Control Staff, Denver Federal Center, Building 85, Room A-212, Denver, CO 80225.

Form MMS-2014, "Report of Sales and Royalty Remittance," shall include production during testing and completion operations and must be submitted each month, beginning with the month production begins. This form must be addressed to the MMS, Royalty Management Program, P.O. Box 5810, Denver, CO 80217.

Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject lease that is committed hereto.

Sincerely,

Authorized Officer

1 Enclosure
1 - Approved CA

Distribution:
SO Fluid Lease Adjudication w/enclosure
Field Office Operations w/enclosure (if appropriate)
SMA (if other than BLM)
MMS-DMD, MS 3110

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Transmittal Letter for
Approved Communitization Agreement

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/13/94
02-25-1920;041STAT0437;30USC181 CASE TYPE SERIAL NUMBER
O&G COMMUNITIZATION AGRMT 318310 NMNM 77952
COMMODITY- NATURAL GAS

NAME AND ADDRESS

STEVE SELL BLM ROSWELL DO
BOX 5061 1717 W SECOND
MIDLAND TX 79704 ROSWELL NM 882012019
OPERATOR 100.00000 % OFFICE OF RECORD 0.00000 %

DESCRIPTION OF LAND

NEW MEX PM
T. 21 S R. 24 E EDDY COUNTY, NM
ROSWELL DISTRICT CARLSBAD RESOURCE AREA
SEC. 35: LOTS 1-6
ALIQUOTS 1-6
654.470 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
6/01/1989	387	CASE ESTABLISHED	
6/01/1989	516	FORMATION	CSC002;CISCO
6/01/1989	525	ACRES-NONFEDERAL	80.00;12.22% FEE
6/01/1989	526	ACRES-FED INT 100%	574.47;87.78%
6/01/1989	868	EFFECTIVE DATE	/A/
6/22/1989	334	AGRMT APPROVED	
6/28/1989	974	AUTOMATED RECORD VERIF	MO/MC

GENERAL REMARKS

02	/A/	RECAPITULATION EFFECTIVE 06/01/1989	
03	TR#	LEASE SERIAL NO	AC COMMITTED % INTEREST
04	1	NMNM 53218	574.47 87.7764
05	2	FEE	80.00 12.2236
06		TOTAL	654.47 100.0000

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Invalidating Unit/CA Approval



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3180 (Office Code)

Operator	:	
(Address)	:	Unit Name:
	:	
	:	Unit Serial No.:
	:	

(Unit Agreement /OR/ Communitization Agreement) Declared Invalid Ab Initio

The (Name) unit agreement, (Serial number) /OR/ Communitization agreement (Serial number), located in (County and State), has been declared invalid ab initio, effective (Date), pursuant to (the last paragraph of Section (Number) of the unit agreement and in accordance with 43 CFR 3183.4(b) /OR/ 43 CFR 3105.2-3). The public interest requirement has not been met. Leases committed to the (unit agreement/communitization agreement) will not be granted a 2-year extension.

Copies of this decision are being distributed to the appropriate Federal agencies and (Enter appropriate State Government fluid minerals agency).

You are requested to furnish notice of this (Unit agreement /OR/ Communitization agreement) invalidation to each lessee, non-Federal lessor, and working interest owner.

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

1 Enclosure
1 - Form 1842-1

Distribution:
Unit/CA Operator
SO Fluid Lease Adjudication
Appropriate State Government Fluid Minerals Agency
SMA (if other than BLM)
MMS-DMD, MS 3110

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS
Format for Decision Consolidating Segregated Leases
Upon Invalidation of Unit Agreement Approval



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO:

3105 (Office Code)

Lessee
(Address)

DECISION

:
: Base Lease Serial Number:
: Segregated Lease Serial Number:
: Lease Date:
: Lease Term:
:

Lease Segregation and Extension Null and Void

By decision dated (Date), the nonunitized lands were segregated from the base lease and given a new serial number upon commitment of part of the lands to the (Name) unit agreement, (Serial number).

A decision dated (Date) has been issued declaring the approval of the unit agreement to be invalid ab initio in accordance with 43 CFR 3183.4(b). The invalidation of the agreement nullifies any segregation of leases that were committed to the unit and any 2-year extension of segregated leases that resulted therefrom. Consequently, the lands in the segregated lease are consolidated with the base lease as if no segregation occurred. No further reference is to be made to the serial number of the segregated lease.

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

1 Enclosure
1 - Form 1842-1

Distribution:
Unit Operator
SMA (if other than BLM)
Field Office Operations
MMS-DMD, MS 3110

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Accounting Advices Showing Lease Segregation and
Extension Null and Void

Form 1370-11
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE

NO. 1420149

Subject: LEASE CANCELLATION/CONSOLIDATION

Applicant: Lee Petroleum Company
444 Calendar St.
Roswell, NM 89321

Remittance

Assignor:

LEASE MANAGEMENT DATA									
<input type="checkbox"/> NEW <input checked="" type="checkbox"/> UPDATE <input type="checkbox"/> ASSIGNMENT									
ORIGINAL SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE		
NMNM 84136		OA P	35	024 14	5003	160.00	2.00		
AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	ST.	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
	05/01/90	06/20/94		C	NM 04				
ASSIGNMENT SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE		
AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	ST.	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE			
ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

(Unit name and serial number) invalidated effective 6/20/1994. Segregation and extension of lease declared null and void/invalid due to UA not meeting the public interest requirement.

Lease acreage consolidated into base lease NMNM 63512.

BY *Dawn Light* DATE 6/30/94

- ☐ Lease in Escrow?
☐ KGS?
☐ Auto Escalates?
☐ Auto Renew?

Of Interest?
 Operating Rights?
 Operator
 Bond Filed?

FOR MMS USE ONLY

BILLEE	FOREST REFUGE
NUMBER	
OC'S SECTION	
CODE	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Accounting Advices Showing Lease Segregation and
Extension Null and Void

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE

NO. 1420150

Subject: LEASE CONSOLIDATION/ACREAGE ADJUSTMENT

Applicant: Lee Petroleum Company
444 Calendar St.
Roswell, NM 89321

Remitter:

Assignor:

LEASE MANAGEMENT DATA																		
<input type="checkbox"/> NEW <input checked="" type="checkbox"/> UPDATE <input type="checkbox"/> PAYMENT																		
ORIGINAL SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL			ACRES/UNITS	RATE									
NMNM 63512		OA P	35	024 14	5003			960.00	2.00									
AMOUNT	ANV. DATE	EXP. DATE	BILL CYC	S-C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS									
\$1920.00	05/01/90	04/30/95			NM 04													
ASSIGNMENT SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL			ACRES/UNITS	RATE									
AMOUNT	ANV. DATE	EXP. DATE	BILL CYC	S-C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS									
APPLY REMITTANCE																		
ACTION	FUND SYMBOL	CTY.	AMOUNT	Remarks: (Unit name and serial number) invalidated effective 6/20/1994. Segregated lease NMNM 84136 cancelled and acreage consolidated with this base lease NMNM 63512.														
FILING FEE																		
RENTAL																		
UNEARNED																		
REFUND																		
TOTAL																		
AMOUNT DUE				BY: <i>Dawn Light</i> DATE: 6/30/94														
<input type="checkbox"/> Lease in Escrow? <input type="checkbox"/> KGS? <input checked="" type="checkbox"/> Auto Escalates? <input type="checkbox"/> Auto Renew?				FOR MMS USE ONLY <table border="1"> <tr> <td>BILLER</td> <td>NUMBER</td> <td>FOREST REFUGE</td> </tr> <tr> <td>OCS SECTION</td> <td></td> <td></td> </tr> <tr> <td>DATE</td> <td></td> <td></td> </tr> </table>						BILLER	NUMBER	FOREST REFUGE	OCS SECTION			DATE		
BILLER	NUMBER	FOREST REFUGE																
OCS SECTION																		
DATE																		

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Leases

Consolidated Upon Invalidation of Unit/CA

PCN: OG080P1
FORM 1274-18

DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

PAGE: 1

CASE ABSTRACT AS OF: 1/13/94
12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
O&G LSE NONCOMP PD -1987 311121 UTU 66004
COMMODITY- OIL & GAS

NAME AND ADDRESS

PG&E RESOURCES CO LOUISIANA LAND & EXP
6688 N CENTRAL EXPRE 1560 BROADWAY #1200
DALLAS TX 752063922 DENVER CO 80202
LESSEE 100.00000 % OPERATING RIGHTS 0.00000 %

PG&E RESOURCES CO
6688 N CENTRAL EXPRE
DALLAS TX 752063922
OPERATING RIGHTS 0.00000 %

DESCRIPTION OF LAND

SALT LAKE MER
T. 11 S. R. 7 E. UTAH COUNTY, UT
SALT LAKE DISTRICT PONY EXPRESS RESOURCE AREA
SEC. 12: ALIQ W2NE, W2NW, SENW, SESW, SE
SEC. 13: NENE
SEC. 14: SWNE
SEC. 25: SWSW
SEC. 26: W2NE, NW, N2SE, SESE
880.000 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
9/13/1989	124	APLN RECD	1:00PM
9/13/1989	129	DAY AFTER SALE OFFER	#11;
9/19/1989	888	DRAWING HELD	
9/21/1989	237	LEASE ISSUED	
9/26/1989	600	RECORDS NOTED	

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Leases

Consolidated Upon Invalidation of Unit/CA

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 2
 FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/13/94
 12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
 O&G LSE NONCOMP PD -1987 311121 UTU 66004
 COMMODITY- OIL & GAS

ACTIONS	DATE	CODE	TAKEN	REMARKS
	10/01/1989	530	RLTY RATE - 12 1/2%	
	10/01/1989	868	EFFECTIVE DATE	
	9/17/1990	111	RENTAL RECEIVED	\$1320.00;21/580
	9/30/1991	140	ASGN FILED	01
	10/21/1991	139	ASGN APPROVED	EFF 10/01/91;
	10/21/1991	898	ASGN EFFECTIVE	/A/
	12/27/1991	232	LEASE COMMITTED TO UNIT	UTU68741X;SCOFIELD
	12/27/1991	700	LEASE SEGREGATED	INTO UTU69178;
	2/11/1992	600	RECORDS NOTED	
	5/08/1992	932	TRF OPER RGTS FILED	
	5/15/1992	558	TRF OPER RGTS RET UNAPPV	FILED 05/08/92;
	6/15/1992	974	AUTOMATED RECORD VERIF	IA
	6/30/1992	932	TRF OPER RGTS FILED	
	7/07/1992	933	TRF OPER RGTS APPROVED	EFF 07/01/92;
	3/05/1993	691	AGRMT INVALIDATED	UTU68741X;SCOFIELD
	3/22/1993	972	CASES CONSOLIDATED	UTU69178;
	3/25/1993	600	RECORDS NOTED	
	9/30/1999	763	EXPIRES	

GENERAL REMARKS

01 /A/ 100% PG&E RESOURCES CO FR STANDARD ENE CORP
 02 (50%) YELLOW RIBBON INC (50%)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Leases

Consolidated Upon Invalidation of Unit/CA

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 1/13/94
12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
O&G LSE NONCOMP PD -1987 311121 UTU 69178
COMMODITY- OIL & GAS

NAME AND ADDRESS

PG&E RESOURCES CO LOUISIANA LAND & EXP
6688 N CENTRAL EXPRE 1560 BROADWAY #1200
DALLAS TX 752063922 DENVER CO 80202
LESSEE 100.00000 % OPERATING RIGHTS 0.00000 %

PG&E RESOURCES CO
6688 N CENTRAL EXPRE
DALLAS TX 752063922
OPERATING RIGHTS 0.00000 %

DESCRIPTION OF LAND

SALT LAKE MER
T. 11 S R. 7 E UTAH COUNTY, UT
SALT LAKE DISTRICT PONY EXPRESS RESOURCE AREA
SEC. 12: W2NE,W2NW,SENW,SESW,SE
SEC. 13: NENE
SEC. 14: SWNE
480.000 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
9/21/1989	387	CASE ESTABLISHED	
10/01/1989	530	RLTY RATE - 12 1/2%	
10/01/1989	868	EFFECTIVE DATE	
12/27/1991	209	CASE CREATED BY SEGR	OUT OF UTU66004;
2/11/1992	600	RECORDS NOTED	
6/30/1992	932	TRF OPER RGTS FILED	
7/07/1992	933	TRF OPER RGTS APPROVED	EFF 07/01/92;
3/05/1993	199	CANCELED	/1/
3/05/1993	691	AGRMT INVALIDATED	UTU68741X;SCOFIELD/1/
3/22/1993	970	CASE CLOSED	INTO UTU66004;
3/25/1993	600	RECORDS NOTED	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Letter Showing Unit/CA Termination



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO:

3180 (Office Code)

Operator
(Address)

Dear _____:

Unit/Communitization agreement (Serial number) was approved on (Date), and became effective as of (Date). This agreement unitized/communitized (Number) acres of Federal land in leases (Indicate lease numbers) /OR/ (On attached listing), and (Number) acres of fee and/or State land, as to natural gas and associated liquid hydrocarbons producible from the (Name of formation) /OR/ (All formations underlying the (legal land description)). The term of the agreement was for (Number) years and for so long thereafter as unitized/communitized substances are produced in paying quantities.

Our records show that the well(s) dedicated to the described agreement, (Indicate well(s)) located in (legal land description) was completed on (Date) and ceased production on (Date). The public interest requirement for the unit agreement/communitization agreement, pursuant to (43 CFR 3183.4(b) /OR/ 43 CFR 3105.2-3), has been met.

Accordingly, in the absence of a well capable of producing unitized/communitized substances in paying quantities, the unit/communitization agreement is considered to have expired by its own terms as of (Date).

You are relieved from filing Form MMS-3160, Monthly Report of Operations, for this agreement.

Sincerely,

Authorized Officer

Distribution:
SO Fluid Lease Adjudication
MMS-DMD, MS 3110

NOTE: Field Office Operations are to indicate on the copy provided to the SO Fluid Lease Adjudication that operations on the above terminated agreement satisfied the public interest requirement and which leases are held by allocated production, lease extension, etc. **EXAMPLE:** Federal lease XXX-00001 is beyond its primary term with no other production and is recommended for a 2-year extension. Federal Lease XXX-00002 is held by allocated production from another CA (Serial number). Federal lease XXX-00003 is within its primary term, is not presently producing, and has 4 years remaining; therefore, a 2-year extension is not appropriate.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Unit/CA Termination
and Applicable Lease ExtensionsUnited States Department of the Interior
BUREAU OF LAND MANAGEMENT

3107 (Office Code)

Lessee
(Address)

DECISION

:
:
: Oil and Gas
:
:

Unit/Communitization Agreement Termination NotedInsert if applicable: Lease Term ExtendedInsert if applicable: Annual Rental Due

We have received notification that the (Unit/Communitization) agreement (Serial number) has terminated. As a result, oil and gas lease (Serial number) is no longer committed to the agreement. The effect that the termination has on the term of the lease is checked below.

UNIT AGREEMENT SERIAL NUMBER AND NAME /OR/ COMMUNITIZATION AGREEMENT SERIAL NUMBER:

TERMINATION DATE:

1. ____ The term of the lease surpasses the length of the 2-year extension provided under the regulations at 43 CFR 3107.4, so the lease term remains as originally issued, but is no longer subject to the provisions and terms of the (Unit/Communitization) agreement.
2. ____ Pursuant to the regulations at 43 CFR 3107.4, the lease term is automatically extended 2 years through (Date) and for so long thereafter as oil or gas is produced in paying quantities.
3. ____ Pursuant to the regulations at 43 CFR 3107.4, the lease term is automatically extended 2 years through (Date) and for so long thereafter as oil or gas is produced in paying quantities. The lease is in a producing status and minimum royalty or royalty will continue to be due and payable to the Minerals Management Service, Royalty Management Program. This extension has been granted in the event production ceases before the expiration date of the 2-year extension.
4. ____ The lease contains a well that was at one time capable of producing oil or gas in paying quantities. Therefore, the lease account will remain in a minimum royalty status with the Minerals Management Service, Royalty Management Program through the expiration date of the lease.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Unit/CA Termination
and Applicable Lease Extensions

5. _____ The lease has never contained a well capable of production in paying quantities, therefore, the lease account is changed in the Minerals Management Service (MMS) automated lease account system from a producing (nonterminable) status to a nonproducing (terminable) status with advance rental due on or before (Date), the next anniversary date of the lease after the effective date of termination or contraction of the agreement. Failure to pay the rental timely will result in automatic termination of the lease. If a payment was made to the MMS prior to receipt of this decision and such payment constituted your required rental, please contact (Name and phone number). (INSERT, WHEN APPLICABLE: Since such anniversary date has passed, you are hereby allowed a period of 30 days from receipt of this decision in which to pay to MMS the amount due in accordance with the Interior Board of Land Appeals (IBLA) decision, Husky Oil Co., 5 IBLA 7, 79 I.D. 17 (1972).

Authorized Officer

Distribution:

Lessee(s)
MMS-DMD, MS 3110
Field Office Operations (if applicable)
SMA (if other than BLM)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Multiple Leases Involved
in Unit/CA Termination



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3107 (Office Code)

DECISION

Lessee :
(Address) :
: Oil and Gas
:
:

Term of Oil and Gas Leases Extended
Due to Termination of Unit Agreement

(Name) unit agreement, (Serial number), located in (County and State), automatically terminated effective (Date), pursuant to the last paragraph of Section 9 of the agreement. In accordance with the regulations at 43 CFR 3107.4, the term of any lease in effect at termination of any unit plan, unless the lease is relinquished, shall continue in effect for the original term of the lease or for 2 years after the termination of the unit plan, whichever is longer, and so long thereafter as oil or gas is produced in paying quantities.

Pursuant to this regulation, the terms of the following oil and gas leases have been extended through (Date), 2 years from the effective date of termination of the (Name) Unit Agreement, (Serial number).

(List of leases that are granted lease extensions.)

Action has been suspended on Lease (Serial number) pending confirmation that drilling operations were being conducted in the (Name) Unit over (Date), the lease expiration date.

The following leases that were also committed to the (Name) Unit terminated automatically on their respective anniversary dates, due to nonpayment of the annual rental:

(List of leases that terminated.)

Authorized Officer

Distribution:

Lessee(s)
MMS-DMD, MS 3110
Field Office Operations (if applicable)
SMA (if other than BLM)
Unit File

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Multiple Leases Involved

in Unit/CA Termination



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3107 (Office Code)

Lessee
(Address)

DECISION

:
:
: Oil and Gas
:
:

Term of Oil and Gas Leases Extended
Due to Termination of DeBeque Unit Agreement
Leases Expired

Termination of (Name) Unit Agreement, (Serial number), was approved effective (Date). The regulations at 43 CFR 3107.4 provide that the term of any lease in effect at the termination of any unit plan, unless relinquished, shall continue in effect for the original term of the lease, or for 2 years after the termination of the unit plan, whichever is longer.

Pursuant to this regulation, the following oil and gas leases are extended through (Date), 2 years from the effective date of termination of the (Name) Unit Agreement, (Serial number), and so long thereafter as oil or gas is produced in paying quantities:

(List of leases that are granted lease extensions.)

The following leases expired before the unit termination date and, as there was no drilling in the unit, the leases cannot be extended:

(List of leases that terminated.)

Inasmuch as the terms of the following leases extend beyond (Effective date of unit termination), the extension provisions of 43 CFR 3107.4 are not applicable to these leases:

(List of leases not eligible for lease extensions.)

Authorized Officer

Distribution:

Lessee(s)
MMS-DMD, MS 3110
Field Office Operations (if applicable)
SMA (if other than BLM)
Unit File

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Lease

Extension Due to CA Termination

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 2/25/94
12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
O&G LSE COMP PD -1987 312021 NMNM 81620
COMMODITY- OIL & GAS

NAME AND ADDRESS

MCCLELLAN OIL CORP	BECKNER OIL PROP
DRAWER 730	DRAWER 730
ROSWELL NM 88202	ROSWELL NM 88202
LESSEE 100.00000 %	OPERATING RIGHTS 0.00000 %

DESCRIPTION OF LAND

NEW MEX PM
T. 15 S, R. 27 E, CHAVES COUNTY, NM
ROSWELL DISTRICT ROSWELL RESOURCE AREA
SEC. 29: ALIQ NENE, N2S2, SWSE BUREAU OF LAND MGMT
SEC. 30: LOTS 3 BUREAU OF LAND MGMT
ALIQ E2SW, SE BUREAU OF LAND MGMT
SEC. 31: E2E2 BUREAU OF LAND MGMT
679.460 ACRES

ACTIONS

DATE	CODE	TAKEN	REMARKS
4/18/1989	387	CASE ESTABLISHED	PARCEL #199
4/19/1989	191	SALE HELD	
4/19/1989	267	BID RECEIVED	\$28560.00;
4/19/1989	392	MONIES RECEIVED	\$28560.00;
4/20/1989	111	RENTAL RECEIVED	\$1020.00;1YR/89-90
5/31/1989	237	LEASE ISSUED	
5/31/1989	974	AUTOMATED RECORD VERIF	ST/TJM
6/01/1989	496	FUND CODE	05;145003
6/01/1989	530	RLTY RATE - 12 1/2%	
6/01/1989	868	EFFECTIVE DATE	
6/29/1989	600	RECORDS NOTED	
7/03/1989	963	CASE MICROFILMED	CNUM 566,767
8/17/1989	576	APD APPROVED	#1-LA FED COM MLL
5/11/1990	111	RENTAL RECEIVED	\$1020.00;21/2159
7/01/1990	246	LEASE COMMITTED TO CA	NMNM82525 MO
5/06/1991	111	RENTAL RECEIVED	\$1020.00;21/2378
3/09/1992	974	AUTOMATED RECORD VERIF	TF/JS
6/30/1992	235	EXTENDED	THRU 06/30/1994
6/30/1992	522	CA TERMINATED	NMNM82525 MO

**** CONTINUED ****

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract for Lease

Extension Due to CA Termination

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 2
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 2/25/94
12-22-1987;101STAT1330;30USC181 ET SEQ CASE TYPE SERIAL NUMBER
O&G LSE COMP PD -1987 312021 NMNM 81620
COMMODITY- OIL & GAS

ACTIONS

DATE	CODE	TAKEN	REMARKS
8/17/1993	974	AUTOMATED RECORD VERIF	TF/KRP
6/30/1994	763	EXPIRES	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Unit Contraction Information Sheet

(Partially Eliminated Lands)

INFORMATION SHEET FOR UNIT CONTRACTION
(Partially Eliminated Lands)

LEASE SERIAL NUMBER _____

The (NAME) UNIT AGREEMENT, (SERIAL NUMBER) , AREA WAS CONTRACTED
EFFECTIVE (DATE) . ONLY THE FOLLOWING LANDS IN THE LEASE REMAIN
COMMITTED TO THE UNIT AGREEMENT:

NOTE: Even though some lands in the lease are no longer within the unit
area, the lease cannot be segregated. (See Continental Oil Company,
70 I.D. 473 (1963).)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Extension of
Lease Eliminated from Unit



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3107 (Office Code)

Lessee
(Address)

DECISION
:
:
:
:
:
:
:

Oil and Gas

Unit Contraction Noted
Insert if applicable: Lease Term Extended
Insert if applicable: Annual Rental Due

Contraction of the (Name) unit agreement, (Serial number), was approved effective (Date). As a result of the contraction, oil and gas lease (Serial number) is no longer committed to the unit. The effect that the unit contraction has on the term of the lease is checked below.

1. The term of the lease surpasses the length of the 2-year extension provided under the regulations at 43 CFR 3107.4. Therefore, the lease term remains as originally issued, but the lease is no longer subject to the provisions and terms of the (Name) agreement, (Serial number).
2. Pursuant to the regulations at 43 CFR 3107.4, the lease term is automatically extended 2 years through (Date) and for so long thereafter as oil or gas is produced in paying quantities.
3. Pursuant to the regulations at 43 CFR 3107.4, the lease term is automatically extended 2 years through (Date) and for so long thereafter as oil or gas is produced in paying quantities. The lease is in a producing status and minimum royalty or royalty will continue to be due and payable to the Minerals Management Service, Royalty Management Program. This extension has been granted in the event production ceases before the expiration date of the 2-year extension.
4. _____ The lease contains a well that was at one time capable of producing oil or gas in paying quantities. Therefore, the lease account will remain on a minimum royalty basis with the Minerals Management Service, Royalty Management Program through the expiration date of the lease.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Extension of
Lease Eliminated from Unit

2

5. _____ The lease has never contained a well capable of production in paying quantities, therefore, the lease account is changed in the Minerals Management Service (MMS) automated lease account system from a nonterminable (producing) status to a nonproducing (terminable) status with advance rental due on or before (Date), the next anniversary date of the lease after the effective date of unit contraction. Failure to pay the rental timely will result in automatic termination of the lease. If payment was made to the MMS prior to receipt of this decision and such payment constituted your required rental, please contact (Name and phone number).
(INSERT, WHEN APPLICABLE: Since such anniversary date has passed, you are hereby allowed a period of 30 days from receipt of this decision in which to pay to the MMS the amount due in accordance with the Interior Board of Land Appeals (IBLA) decision, Husky Oil Co., 5 IBLA 7, 79 I.D. 17 (1972).

Authorized Officer

Distribution:

Lessee(s)
MMS-DMD, MS 3110
Field Office Operations (if applicable)
SMA (if other than BLM)
Unit File

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decisions Showing Multiple Leases Involved in
Unit Contraction



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO:

3105 (Office Code)

	<u>DECISION</u>	
Lessee	:	
(Address)	:	
	:	Oil and Gas
	:	
	:	

Contraction of Unit Agreement
Oil and Gas Leases Extended

Contraction of the (Name) Unit, (Serial number), was approved effective (Date). The regulations at 43 CFR 3107.4 provide that, unless relinquished, any lease eliminated from any approved or prescribed cooperative or unit plan, shall continue in effect for the original term of the lease, or for 2 years after its elimination from the plan, whichever is longer, and for so long thereafter as oil or gas is produced in paying quantities.

Consequently, the terms of the following oil and gas leases have been extended through (Date that is 2 years from effective date of unit contraction), and so long thereafter as oil or gas is produced in paying quantities, unless further extended by another provision of the regulations.

<u>Lease Serial Number:</u>	<u>Extended through:</u>
(List of leases that are granted lease extensions.)	


Authorized Officer

Distribution:
Lessee(s)
Field Office Operations (if applicable)
MMS-DMD, MS 3110
SMA (if other than BLM)
Unit File

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decisions Showing Multiple Leases Involved in
Unit Contraction

IN REPLY REFER TO



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

3105 (Office Code)

Lessee	<u>DECISION</u>	
(Address)	:	
	:	
	:	Oil and Gas
	:	
	:	

Contraction of Unit Agreement
Oil and Gas Leases Extended

Automatic contraction of the (Name) Unit, (Serial number), was approved effective (Date). The regulations at 43 CFR 3107.4 provide that any lease eliminated from an approved or prescribed cooperation or unit plan, unless relinquished, shall continue in effect for the original term of the lease, or for 2 years after its elimination from the plan, whichever is the longer, and for so long thereafter as oil or gas is produced in paying quantities.

The following leases have been eliminated entirely from the unit, and are extended through (Date that is 2 years from effective date of unit contraction):

<u>Lease Serial Number:</u>	<u>Extended through:</u>
-----------------------------	--------------------------

(List of leases that are granted lease extensions.)

In addition, lease (Serial number) is considered as being held by production. The term of lease (Serial number) is not affected by the unit contraction because its primary term extends beyond (Date that is more than 2 years period beyond the effective date of unit contraction). Lease (Serial number), which was not committed to the (Name) unit, (Serial number), is not extended by contraction of the unit.

Authorized Officer

Distribution:

- MMS-DMD, MS 3110
- Field Office Operations (if applicable)
- SMA (if other than BLM)
- Unit File

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Letter Transmitting

Approved Development Contract



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY, REFER TO:

3105 (Office Code)

Operator/Contractor
(Address)

Dear _____:

The development contract for (Name and location of contract area) is approved and considered effective as of the date indicated on the certification-determination page. We look forward to continued oil and gas exploration on public lands in (Name), and hope that this contract provides a stable framework within which drillable prospects may be developed and tested.

The (Name) development contract has been assigned the serial number (Number) and will be available as public information in our Public Room under this serial number. The copy on file in the Public Room will have all dollar amounts and work commitments deleted pursuant to your request.

Thank you for your assistance in this matter and we look forward to reviewing your first data compilation soon.

Sincerely,

Authorized Officer

Distribution:

Lessee(s)
Field Office Operations w/map
SO Fluid Lease Adjudication
(With list of leases affected)
SMA (if other than BLM)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Letter Transmitting

Approved Gas Storage Agreement



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY, REFER TO:

3105 (Office Code)

Operator
(Address)

Dear _____:

The agreement for the subsurface storage of gas in the (Name of area, County, and State), has been approved by the Bureau of Land Management. The agreement has been designated the serial number (Number), and is effective (Date).

One executed copy of the agreement is enclosed. The attached provisions shall apply in accordance with the regulations governing such gas storage agreements.

Sincerely,

Authorized Officer

1 Enclosure
1 - Approved Gas Storage Agreement

Distribution:
Operator
SO Fluid Lease Adjudication
(Without copy of agreement)
(With list of affected leases)
MMS-DMD, MS 3110
SMA (if other than BLM)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Accounting Advice Showing Indefinite Expiration
and Transfer of Lease Account to Producing (Nonterminable)
Status in MMS for Gas Storage Agreement Rental Fees

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE

NO. 1420153

Subject: GAS STORAGE AGREEMENT APPROVED/LEASE EXTENSION

Applicant: Northern Rocky Mountain Gas Corp.
349 Main Avenue
Butte, MT 59821

Remitter:

Assignor:

LEASE MANAGEMENT DATA									
ORIGINAL SERIAL NO.	ASG.	TYPE	ST	CTY	FUND SYMBOL	ACRES/UNITS	RATE		
MTM 30544		OA	P	30	014 14 5003	320.00	2.00		
AMOUNT	ANV. DATE	EXP. DATE	BILL CYC	SEC	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
\$640.00	12/01/89	99/99/9999			MT 04				
ASSIGNMENT SERIAL NO. ASG. TYPE ST CTY FUND SYMBOL ACRES/UNITS RATE									
AMOUNT ANV. DATE EXP. DATE BILL CYC SEC DISTRICT NEXT BILL MISC. DATA U of M ACTUAL UNITS									
APPLY REMITTANCE									
ACTION	FUND SYMBOL	CTY	AMOUNT	Remarks: Lease committed to (Gas storage agreement name and serial number), approved effective 06/14/1994. Lease in nonproducing (rental) status and will continue as long as it is committed to the (Name) gas storage agreement.					
FILING FEE									
RENTAL									
UNEARNED									
REFUND									
TOTAL									
AMOUNT DUE									
<input type="checkbox"/> Lease in Escrow? <input type="checkbox"/> KGS? <input checked="" type="checkbox"/> Auto Escalates? <input type="checkbox"/> Auto Renew?				Of Interest? Operating Rights? Operator Bond Filed?		BY: <i>Dawn Light</i> DATE: 7/1/94 FOR MMS USE ONLY BILLIF NUMBER FOREST REFUGE OCS SECTION CODE			

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision of Lease Expired Upon Termination of Gas
Storage Agreement



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3105 (Office Code)

Lessee
(Address)

DECISION

:
:
: Oil and Gas
:
:

Termination of Gas Storage Agreement
Lease Expired

Gas storage agreement (Serial number) terminated effective (Date).
Inasmuch as no production was attributable to lease (Serial number), and
the lease was being held solely by its inclusion in the gas storage
agreement, the lease expired simultaneously with the termination of the gas
storage agreement. The lease is not eligible for extension.

Authorized Officer

Distribution:

Lessee(s)
SMA (if other than BLM)
Field Office Operations (if applicable)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Accounting Advice Showing Lease Account Change to
Nonproducing (Terminable) Status Upon Termination of
Gas Storage Agreement

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE

NO. 1420155

Subject: GAS STORAGE AGREEMENT TERMINATED

Applicant: XYZ Natural Gas Corp.
111 North St.
Denver, CO 80211

Remitter

Assignor:

LEASE MANAGEMENT DATA									
<input type="checkbox"/> NEW <input checked="" type="checkbox"/> UPDATE <input type="checkbox"/> PAYMENT									
ORIGINAL SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE		
NMM 72987		ON P	35	024 14	5003	240.00	1.50		
AMOUNT	ANV DATE	EXP DATE	BILL CYC	SC	DISTRICT	NEXT BILL	MISC DATA	U of M	ACTUAL UNITS
\$480.00	12/1/88	11/30/1998			NM 02				
ASSIGNMENT SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE		
AMOUNT	ANV DATE	EXP DATE	BILL CYC	SC	DISTRICT	NEXT BILL	MISC DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE				Remarks: Gas storage agreement terminated effective 5/31/1994; no production attributable to lease lands. Lease returns to terminable status, to expire 11/30/1998. Please prepare billing notice for 12/1/94 lease anniversary date, annual rental due.
ACTION	FUND SYMBOL	CTY.	AMOUNT	
FILING FEE				
RENTAL				
UNEARNED				
REFUND				
TOTAL				
AMOUNT DUE				

☐ Lease in Escrow?
☐ KGS?
☒ Auto Escalates?
☐ Auto Renew?

Of Interest?
 Operating Rights?
 Operator
 Bond Filed?

BY: Dawn Light DATE: 6/28/94

FOR MMS USE ONLY	
BILLEE	FOREST REFUGE
NUMBER	
OCS SECTION	
CODE	

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Approval of Lease Consolidation



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

IN REPLY REFER TO

3105 (Office Code)

Lessee
(Address)

DECISION

:
:
: Oil and Gas
:
:

Leases Consolidated

On (Date), as the lessee of oil and gas leases XXX-12345 and XXX-54321, you requested that the two leases be consolidated into one lease. No objections appear to the consolidation, and the action is hereby authorized in accordance with 43 CFR 3105.6.

The lands in the consolidated lease will be carried under lease serial number XXX-12345, the older of the two leases, and the lands embraced in it are as follows:

(Legal land description)

County:

Containing _____ acres.

The effective date of this consolidated lease is (Effective date of older lease). The rental and royalty rates for the consolidated lease are (See Handbook text for resolution of difficult cases; the general rule is to apply the higher rent and royalty of the leases being consolidated).

All further correspondence concerning the above lands are to refer to the consolidated lease number, XXX-12345.

Authorized Officer

Distribution:

Operator
Field Office Operations
MMS-DMD, MS 3110
SMA (if other than BLM)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Decision Showing Rejection of Application for
Lease Consolidation



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

3105 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee
(Address)

Oil and Gas

Request for Consolidation of Leases Rejected

On (Date), you requested consolidation of oil and gas leases XXX-12344 and XXX-12355.

The provisions of the Federal oil and gas leasing regulations at 43 CFR 3105.6 allow for consolidation of leases when such consolidation can be shown to be in the public interest. Sufficient justification must be provided to indicate that the lease consolidation is in the interest of conservation of the resources. Any different lease terms and conditions, including the rental and royalty rates, must be reconcilable in order to allow consolidation of the leases.

Lease XXX-12344 is in its extended term by production. Lease XXX-12355 is a nonproducing lease in its sixth year of a 10-year primary term and is presently paying rental. Thus, the terms of the leases are not the same.

Since there are no provisions of the Mineral Leasing Act of 1920, as amended and supplemented, by which the lease terms can be changed, the consolidation cannot be reconciled. Therefore, the request for lease consolidation is rejected.

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

1 Enclosure
1 - Form 1842-1

Distribution:
Field Office Operations

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Format for Serial Register Page/Case Abstract
for Lease Consolidation

PCN: OG080P1 DEPARTMENT OF THE INTERIOR PAGE: 1
FORM 1274-18 BUREAU OF LAND MANAGEMENT

CASE ABSTRACT AS OF: 2/25/94
02-25-1920;041STAT0437;30USC181ETSEQ CASE TYPE SERIAL NUMBER
O&G LSE SIMO PUBLIC LAND 311211 NMNM 4282
COMMODITY- OIL & GAS

NAME AND ADDRESS

BENSON-MONTIN-GREER
221 PETRO CTR BLDG
FARMINGTON NM 87401
LESSEE 100.00000 %

DESCRIPTION OF LAND

NEW MEX PM
T. 32 N R. 13 W SAN JUAN COUNTY, NM
FARMINGTON DISTRICT UNKNOWN RESOURCE AREA
SEC. 30:LOTS 5-16 BUREAU OF LAND MGMT
501.440 ACRES

ACTIONS	DATE	CODE	TAKEN	REMARKS
	12/24/1967	387	CASE ESTABLISHED	PARCEL #33
	12/26/1967	888	DRAWING HELD	MT
	1/15/1968	237	LEASE ISSUED	
	2/01/1968	496	FUND CODE	05;145003
	2/01/1968	530	RLTY RATE - 12 1/2%	
	2/01/1968	868	EFFECTIVE DATE	
	6/01/1969	232	LEASE COMMITTED TO UNIT	NM78397X;LA PLATA MAN
	10/03/1969	102	NOTICE SENT-PROD STATUS	ROSWELL NM
	2/18/1970	972	CASES CONSOLIDATED	NMNM10182
	1/03/1975	650	HELD BY PROD - ACTUAL	
	1/03/1975	658	MEMO OF 1ST PROD-ACTUAL	#1 CLB
	2/09/1989	974	AUTOMATED RECORD VERIF	RAO/MT

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

IBLA Order 86-1267 on Extensions Due Segregated Leases

(June 27, 1988)

United States Department of the Interior

OFFICE OF HEARINGS AND APPEALS
INTERIOR BOARD OF LAND APPEALS
4015 Wilson Boulevard
ARLINGTON, VIRGINIA 22203
JUNE 27, 1988

IBLA 86-1267 : W-89848, et al.
:
HPC, INC., et al. : Oil and Gas
BARLOW & HAUN, INC., et al. :
: Reversed

ORDER

On April 23, 1986, the Wyoming State Office, Bureau of Land Management (BLM), issued a decision amending previous decisions dated October 19, 1984, concerning leases segregated from leases committed to the Culp Draw (Shannon "B" Sand) unit. The October 19, 1984, decisions had ruled that the segregated leases would not continue in effect for so long as oil or gas was produced on the unitized base lease. BLM's April 23 decision found that the term of eight of the nonunitized segregated oil and gas leases would continue so long as oil or gas is produced in paying quantities from the associated unitized base lease lands. 1/

On May 27, 1986, HPC, Inc., et al., 2/ filed a notice of appeal of BLM's decision of April 23, 1986, because when reconsidering the effect of segregation, BLM had failed to find that six nonunitized segregated leases would also be held by production. 3/

On April 29, 1986, Barlow & Haun, Inc. (B&H), owners of overriding royalty interests in the same six nonunitized leases not addressed in BLM's April 23 decision wrote to BLM to protest its failure to rule that these leases were also being held by production. In response, on May 8, 1986, BLM issued a decision specifically ruling that these six leases were not being held by production associated with other leases. B&H and others appealed from this decision, 4/ and by order dated July 16, 1986, the appeals were consolidated.

1/ The eight segregated leases addressed by the Apr. 23, 1986, amendment are as follows: W-89850, W-89851, W-89852, W-89853, W-89854, W-89856, W-89859, and W-89862.

2/ Davis Oil Company, Sun Exploration and Production Company, and Convest Production Company are parties included in HPC's appeal.

3/ These leases are: W-89848, W-89849, W-89858, W-89863, W-89864, and W-89865.

4/ B&H's notice of appeal includes as other appellants: HPC, Davis Oil Company, Sun Exploration and Production Company, Convest Production Company, Phillips Petroleum Company, and Petro-Search Nominee Partnership Company.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

IBLA 86-1267

Although this appeal concerns the terms of only six leases, these leases arose out of a series of events involving the formation, contraction, and termination of several unit areas. The partial commitment of leases to the various unit areas resulted in the segregation of those leases several times during their history, so that consideration of this appeal involves the history of a number of leases in addition to the six at issue here. These leases developed from a common pattern, however, and each lease falls within a distinct group. Thus, the issues in this appeal can be most easily understood by restating the history of these leases in a generic manner.

Prior to 1981, lease No. 1 was committed to Unit A and was extended beyond its primary term by unit production. Effective July 1, 1981, Unit A contracted, and a portion of lease No. 1 was eliminated from the unit area. 5/ As appellants point out, this partial elimination had no effect on the tenure of the lease, nor did it effect any segregation of the lease. See Solicitor's Opinion, M-36592 (Jan. 21, 1960); accord, Marathon Oil Co., 78 IBLA 102 (1983).

On May 26, 1983, a portion of lease No. 1 not within the participating area of Unit A was committed to a new unit, Unit B. 6/ Pursuant to 30 U.S.C. § 226(j) (1982), lease No. 1 was segregated into two leases. The portion committed to Unit B retained the designation as lease No. 1, and the portion that remained in Unit A was designated lease No. 2. 7/ The term for lease No. 1 was for the life of production on lease No. 2, but not less than 2 years. See Anne Guyer Lewis, 68 I.D. 180 (1961).

Unit B terminated on July 1, 1983, without production or drilling. At this time, lease No. 2 was still committed to Unit A, but lease No. 1 was committed to no unit and contained no producing wells. The effect of this event on the term of lease No. 1 is discussed later.

Effective August 1, 1984, Unit A terminated. On the same date, Unit C was formed and leases No. 1 and No. 2 were committed in part to Unit C. 8/ When a portion of lease No. 1 was committed to Unit C, it was segregated into two leases. See 30 U.S.C. § 226(j) (1982). The part within Unit C retained its designation as lease No. 1, and the nonunitized portion was designated as lease No. 3. 9/ Similarly, lease No. 2 was segregated upon partial commitment to Unit C. The part within Unit C retained its designation as lease No. 2, and the nonunitized portion was designated lease No. 4. 10/ BLM held that leases No. 3 and No. 4 could not be extended by production from the unitized leases; BLM held that these leases were only

5/ Lease No. 1 corresponds to leases W-0266641, W-0266642, and W-40634. Unit A corresponds to the Culp Draw II Unit for leases W-0266641 and W-0266642, and the Heldt Draw Unit for lease W-40634.

6/ Unit B corresponds to the Brahman Unit.

7/ Lease No. 2 corresponds to leases W-85359, W-85360, and W-85361.

8/ Unit C corresponds to the Culp Draw (Shannon "B" Sand) Unit.

9/ Lease No. 3 corresponds to leases W-89848, W-89849, and W-84850.

10/ Lease No. 4 corresponds to leases W-89863, W-89864, and W-89865.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

IBLA 86-1267

extended until August 1, 1986, and so long thereafter as they produce on their own.

The leases corresponding to lease No. 4 are governed by our decisions in Conoco, Inc., 90 IBLA 388 (1986), and Wexpro Co., 90 IBLA 394 (1986). In these decisions, we held that if a producing unit terminates after the conclusion of the primary term of the parent lease and a portion of the lands in the parent lease are simultaneously committed to a second producing unit, the term of the nonunitized lease without production shall be for so long as oil or gas is produced in paying quantities on the unitized lease, but not less than 2 years, and so long thereafter as oil or gas is produced in paying quantities on the nonunitized lease. In this case, because of the termination of Unit A after the primary term of lease No. 2 and simultaneous commitment of a portion of land within lease No. 2 to Unit C, lease No. 4 would have a term coextensive with lease No. 2 under Conoco and Wexpro, but no less than 2 years, and so long thereafter as oil or gas is produced on lease No. 4. Although Conoco and Wexpro were overruled in Celsius Energy Co., 99 IBLA 53, 94 I.D. 394 (1987), the Board made its action prospective only. Thus, this appeal continues to be governed by Conoco and Wexpro, so BLM's decision must be reversed with respect to those leases corresponding to lease No. 4: W-89863, W-89864, and W-89865.

The circumstances are different with respect to the leases corresponding to lease No. 3. Unlike circumstances in Conoco and Wexpro, there was no simultaneous elimination of the base lease (lease No. 1) and its recommitment to a new unit. Lease No. 1 was eliminated from Unit B more than 1 year before it was partially committed to Unit C. Appellants recognize that the prior termination of Unit B appears to be the critical fact concerning the disposition of these leases. Appellants state that BLM's "[d]ecision seems to be based on the BLM's view that the segregated leases did not retain indefinite terms from the leases [from] which they were segregated because the parent leases had * * * somehow lost their indefinite term status when the Brahman unit [Unit B] terminated" (Statement of Reasons (SOR) at 8).

Appellants contend that upon termination of Unit B, lease No. 1 retained the indefinite term it had when it was made a part of Unit B (SOR at 11). In support of this proposition, appellants cite Bass Enterprises Production Co., 47 IBLA 53 (1980), in which the Board expressly endorsed the notion that the phrase "original term" could refer to an indefinite period. In Conoco, 90 IBLA at 392, the Board specifically cited Bass in support of the proposition that the segregation of the lease does not necessarily cause the resultant two leases to have independent terms. The practical effect of this holding was that a nonunitized lease could be extended by production from a unitized lease, even though all of the land within the nonunitized lease had been completely eliminated from a unit.

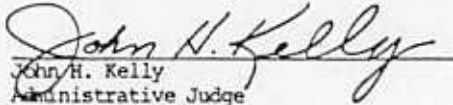
In Celsius, *supra*, the Board reexamined this issue and concluded that such a result was inconsistent with legislative intent in the enactment of the provisions which set forth the lease terms upon termination of units, elimination of leases from units, and segregation of leases upon partial commitment to units. We expressly focused upon the erroneous conclusions

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

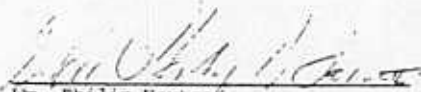
IBLA 86-1267

that followed from reliance upon the Bass opinion. Thus, in order to overrule Conoco and Wexpro, it was also necessary to modify the Bass opinion. Nevertheless, we again note that the Board's decision to overrule Conoco and Wexpro was made prospective only. Because the facts of this appeal arose before the issuance of the Celsius opinion, we conclude that upon termination of Unit B, lease No. 1 retained an indefinite term. Accordingly, BLM's decision must also be reversed with respect to the leases corresponding to lease No. 3: W-89848, W-89849, and W-89858.

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is reversed and the case remanded for further action consistent with this order.


John H. Kelly
Administrative Judge

I concur:


Wm. Philip Horton
Chief Administrative Judge

APPEARANCES:

Howard L. Boigon, Esq.
Davis, Graham & Stubbs
370 17th Street, Suite 4700
P.O. Box 185
Denver, Colorado 80201-0185

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

IBLA 86-1267

ADMINISTRATIVE JUDGE MULLEN CONCURRING:

I concur with the conclusions of the majority in the order, but continue to be troubled by the manner in which this Board describes the events that take place when a part of a lease is placed in a unit. The basis for my concern is the use of the term "segregated." Two things are not segregated from each other. One thing is segregated from another.

I recognize that, when interpreting a statute or regulation it is best to use the language of the statute or regulation to the fullest extent possible. However, in the attempt to cast the facts using the terms found in the statute or regulation, one runs the risk of creating confusion, rather than making a clear understandable statement. ^{1/}

In order that my concern may be understood, I will set forth my understanding of the Bureau of Land Management's (BLM's) "application" of the law when a portion of an oil and gas lease is placed in a unit area. That portion placed in the unit retains the original lease number, and the portion not unitized is assigned a new number. This in most accurately characterized as "segregating the nonunitized portion from the base lease." If BLM, the Solicitor's Office, and this Board were to cast the transaction in this light, a great deal of confusion could be avoided. A few examples will illustrate my point.

This order states: "The practical effect of this holding was that a nonunitized lease could be extended by production from a unitized lease, even though all of the land within the nonunitized lease had been completely eliminated from the unit." It could have been written "[t]he practical effect of this holding was that a segregated lease could be extended by production from a unit, even though it was not a part of the unit."

At page 62 of Celsius Energy Co., 99 IBLA 53, 94 I.D. 399 (1987), the decision cited in the order, the author carefully followed the language in the statute and prior decisions, with the following result:

In accordance with the construction set forth in Solicitor's Opinion, 63 I.D. 246 (1956), the Department has ruled that production on one segregated lease can extend the term of the other segregated lease, but only if the segregation occurs when the base is in an extended term because of production and not in a fixed term of years. Anne Guyer Lewis, 68 I.D. 180 (1961); see also Solicitor's Opinion, M-36758 (Oct. 25, 1968); cf. Conoco, Inc., 80 IBLA 161, 91 I.D. 181 (1984) (because segregation occurred during fixed term, production on the base lease did not extend the nonproducing nonunitized segregated lease.)

While a correct statement, if cast as I propose, we would find that production from segregated lease can extend the term of a unitized lease only if

^{1/} This is especially true when the statutory language is, itself, not the model of clarity.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

IBLA 86-1267

it was segregated during an extended term of the base lease. In the Conoco case the segregation occurred during a fixed term, and unit production did not extend the term of the segregated lease.

Why do I express this concern? These cases are confusing enough without this additional factor. 2/ Therefore, I deem the opportunity to encourage the use of less confusing language worth the time it has taken to draft this special concurrence, even though the majority has chosen to dispose of this case by order, rather than issuing a decision. "The nonunitized portion is extended for the term of the unitized parent lease as that term exists on the date of segregation" could become "the segregated lease is extended by the unitized lease if the base lease is in its extended term at the date of unitization." "The nonunitized segregated portion of the lease" would become "the segregated lease." "Unitized segregated portion of the lease" would become "unitized lease." "Segregated, nonunitized leases" would be "segregated leases."

If, by encouraging the use of less confusing language, I have avoided one appeal from a decision involving the term of a segregated lease, it will be well worth the time.


R. W. Mullen
Administrative Judge

2/ In fact this confusion may well have caused some of the prior appeals considered by this Board.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Director's Decision on Extensions Due Segregated Leases
from Leases in Their Extended Term (May 22, 1967)

Oil and Gas Leases: Unit and Cooperative Agreements 3121.1

It is mandatory that an oil and gas lease partly committed to an approved unit agreement be segregated into separate leases, one containing the land within the unit area and one containing the land without the unit area.

A lease segregated because of partial commitment of the base lease to an approved unit agreement will continue for the term thereof but not less than two years, and so long thereafter as oil or gas is produced in paying quantities.

A lease segregated, because of partial commitment to an approved unit, from a lease extended by production, will continue for the life of the production attributable to the base lease, and so long thereafter as oil or gas is produced in paying quantities from the segregated lease.

Beard Oil Company, et al., BLM 039507, etc. (May 22, 1967)

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240IN REPLY
REFER TO:

May 22, 1967

CERTIFIED MAIL
RETURN RECEIPT REQUESTEDDECISION

Beard Oil Company

Oil and Gas

Bruce Anderson

Decision Affirmed, as Modified

Beard Oil Company has appealed from a decision of our Eastern States Land office dated May 5, 1966, as amended by decision dated May 20, 1966, which segregated from oil and gas lease BLM 039507 those lands containing 45.60 acres which were not committed to the Pettit Zone unit agreement (14-08-0001-8756) effective January 1, 1966, and assigned ES 01213 as the identifying serial number. Lease BLM 039507 retained 94.65 acres which were committed to the unit agreement. The decision stated that the segregated lease ES 01213 would continue for two years from January 1, 1966, and so long thereafter as oil or gas is produced in paying quantities, whereas the lease BLM 039507 committed to the unit agreement was considered as extended by production from Communitization Agreement MC-134, effective February 1, 1965. Lease BLM 039507 was issued December 1, 1955, and extended to November 30, 1965.

The appellant contends the lease BLM 039507 should not have been segregated because it was extended by production prior to the date of unitization. The pertinent statute provides essentially that any lease committed to a unit plan as to part of its acreage shall be segregated into separate leases, one for the lands committed to the unit plan and one for the lands not so committed effective as of the date of unitization, and that the non-unitized lease shall continue in force and effect for the term thereof, but no less than 2 years and so long thereafter as oil or gas is produced in paying quantities. (30 U.S.C. Sec. 226(j) (1964)). This statutory mandate and the implementing regulations (43 CFR 3127.4), compelled the land office action segregating the nonunitized area as lease ES 01213. That action is approved and the decision appealed from is affirmed insofar as it segregated the leases.

The land office decision stated the segregated lease would run for 2 years from January 1, 1966, and so long thereafter as oil or gas is produced in paying quantity. As above indicated, the statute and regulations provide the segregated lease will continue for the term thereof, but for not less than 2 years from the effective date of segregation. The record shows that

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the original lease BLM 039507 was placed in producing status June 25, 1965, as a result of operations under Communitization Agreement MC-134, to which some of the land in lease BLM 039507 has been committed. From this constructive production the term of lease BLM 039507 became indefinite December 1, 1965, after conclusion of the original fixed term thereof. So when lease BLM 039507 was committed in part to the Pettit Zone unit agreement, it was a lease of indefinite term, extended by production.

Where a portion of a producing lease, which has been extended by production, is committed to a unit agreement the segregated lease covering the nonunitized portion of the lands is extended for an indefinite "so long as" term. Husky Oil Company, Wyoming 084971 (March 23, 1961). See also Ann Guyer Lewis, et. al., 68 I.D. 180 (1961). Thus it was error for the land office to state that the segregated lease ES 01213 was extended only for 2 years from January 1, 1966. The segregated lease ES 01213 will continue so long as the base lease BLM 039507 exists, and for so long thereafter as oil or gas is produced in paying quantities from within the lease ES 01213. However, payment of rental and/or royalty which may accrue for the land within lease ES 01213 must be paid in accordance with the pertinent regulations. The land office decisions of May 5 and May 20, 1966, are modified accordingly.

Beard Oil Company and Bruce Anderson are allowed the right of appeal to the Secretary of the Interior, in accordance with the regulations in 43 CFR Part 1840. See enclosed Form WO 1844-1 and Circular 2137. If an appeal is taken, it must be filed with the Director, Bureau of Land Management, Washington, D.C. 20240. The filing fee will be \$5. In taking an appeal there must be strict compliance with the regulations. If an appeal is filed the appellant will have the burden of proving, by presenting positive and substantial evidence, wherein the decision appealed from is in error.

Acting Chief,
Office of Appeals and Hearings

Enclosures

DISTRIBUTION:

Beard Oil Company (Certified Mail)
Bruce Anderson (Certified Mail)
Div of L&M S&T (4)
Div of L&M PM (2)
Geological Survey, Cons Div (6)
Gower Federal Service
Appeals List No. 1
OPD

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Regional Solicitor's Opinion (BLM.RM.0244) on

Effective Date of Subsequent Joinders (May 16, 1984)



United States Department of the Interior

IN REPLY
REFER TO:

OFFICE OF THE SOLICITOR
DENVER REGION
P.O. BOX 25007
DENVER FEDERAL CENTER
DENVER, COLORADO 80225
May 16, 1984

BLM.RM.0244

Memorandum

To: Acting State Director, Bureau of Land Management,
Denver, Colorado

From: Regional Solicitor, Rocky Mountain Region

Subject: Effective Date of Subsequent Joinders - CO-943A (CR/WN)

In your March 28, 1984 memorandum to us, you ask several questions regarding the unitization of oil and gas leases.

The facts, as you state them, are as follows:

Your office has received two subsequent joinders to producing oil and gas units of leases in the last month of their primary terms. Both leases describe lands inside and outside of the unit areas to which they have been joined and would normally be eligible for segregation. Both unit agreements provide, in section 28, that:

* * * subsequent joinders to this unit agreement shall be effective as of the first of the month following the filing with the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment * * *

You ask if and when the leases should be effectively segregated? You also ask, if the leases can be segregated, to what date the segregated leases not in the units should be extended?

In the case of Bruce Anderson, 30 IBLA 179 (1977), the Interior Board of Land Appeals considered joinder provisions containing language similar, if not identical to the above-quoted language from section 28 of the unit agreements in question. It specifically construed the words "shall be effective on the first day of the month * * * following the filing * * *." In that decision the Board held, in substance, that an oil and gas lease is committed to a unit when properly prepared and executed joinder documents are filed with the appropriate Bureau of Land Management employee. The Board stated:

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The fact that the unit agreement provides that the effective date for a subsequent joinder will be the first day of the month following the filing, is not determinative of the date of commitment. As recognized by the Assistant Secretary, commitment is accomplished when there has been compliance with all the requirements set forth in the unit plan. However, the commitment becomes effective or operative on the first day of the month following the filing for the purpose of determining obligations and benefits under the plan, as among the parties to the plan.

In other words, the actual date of commitment is when the necessary documents are properly filed, while the operative date, a date of convenience used for "bookkeeping" purposes, is the first day of the month following the filing.^{1/}

Section 17(j) of the Mineral Leasing Act, as reprinted in 30 U.S.C.A. 226(j), reads in part as follows:

Any lease * * * hereafter committed to any such plan embracing lands that are in part within and in part outside of the area covered by such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; Provided, however, That any such lease as to the non-unitized portion, shall continue in force and effect for the term thereof but for not less than 2 years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

In view of the above-quoted language, the next essential question is when is the "effective date of unitization?" It is our opinion that it is the day when a lease becomes legally committed to a unit. The same rationale that was applied by the Board in the Anderson decision, supra, regarding the effective date of a joinder can be applied to determine the effective date of lease segregation. If, as the Board held in the Anderson decision, a lease is legally committed to a unit the day all of the appropriate documents are properly filed, that is "the effective date of unitization" to be used in determining when a lease is legally segregated. The operative date of segregation, as well as joinder, is the first day of the following month.

This conclusion is not inconsistent with the law and is consistent with the procedures followed when issuing a noncompetitive oil and gas lease. A noncompetitive lease is issued for primary term of 10 years (30 U.S.C.A. 226(e); 43 CFR 3110.1-1). The operative date of such leases

^{1/}The model unit agreement now in use eliminates this dual date problem as it provides that the joinder agreement shall be effective when filed. (See section 28 of the model unit agreement set forth in 43 CFR 3186.1 (1983 ed.))

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is, however, "the first day of the month following the date the leases are issued * * *," even though such leases "shall be considered issued when signed by the authorized officer," (43 CFR 3110.1-2). Such leases become legally binding contracts when signed. Charles D. Edmonson, 61 I.D. 355, 369 (1954); Bruce Anderson, *supra*, at 184. The operative date, effective date, for such leases is simply delayed for bookkeeping purposes. Such leases are legally binding contracts for a primary term of 10 years plus the number of days between the day the lease is signed and the first day of the following month.^{2/}

The conclusion is consistent with the purpose of the Act of July 29, 1954 (68 Stat. 583), which authorized the segregation of leases partially joined to a unit. One of the main purposes of the act is to "encourage exploration and development of the oil and gas reserves of the public domain * * *," (House Report No. 2238, reprinted beginning on page 2695, of 1954 U.S.C. Congressional and Administrative news). For example, if it were to be concluded in this case that the day a partially joined lease becomes segregated is the operative date of joinder; that is, the first day of the month following the filing of all the appropriate joinder documents, the segregated, nonunitized portion of the leases would have taken place during the extended term of the base leases. This being the case, the production attributable to the unitized portion of the base lease would extend the life of the segregated, nonunitized lease for as long as oil or gas was produced in paying quantities from the unitized portion of the lease. Ann Guyer Lewis, et. al., 68 I.D. 180 (1961).

We believe that the above discussion answers all of the questions presented to us in your March 28, 1984 memorandum. If, however, you have additional questions, please contact the undersigned at 234-6781.

Lowell L. Madsen
For the Regional Solicitor
Rocky Mountain Region

cc: Associate Solicitor, Division of Energy and Resources

^{2/}It is noted in this connection that section 17(j) of the Mineral Leasing Act (30 U.S.C.A. 226(j)) does not provide that the known unitized, segregated lease, is limited to a term of exactly 2 years from the date of segregation, but that the term shall be "not less than 2 years" from the date of segregation.

H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS
Guidelines for Reversion of Lease Accounts from
Minimum Royalty to Rental Status

Reversion of Lease Accounts from Minimum Royalty to Rental Status

The following guidelines were extracted from Department of the Interior decisions and Solicitor's Opinions and from the former U.S. Geological Survey Conservation Division Manual, Chapter 11, Minimum Royalty, dealing with minimum royalty requirements.

A. General

The Minerals Management Service (MMS) is responsible for collecting advance rentals beginning with the second lease year on nonproducing (terminable) leases. The MMS collects the annual rental due for future interest leases upon the vesting of the mineral estate in the United States. The MMS also is responsible for collecting royalty and minimum royalties on leases.

The following information is provided for guidance in determining whether a lease account reverts from a producing (nonterminable) status to a nonproducing (terminable) status when producing leases are segregated by partial assignment or unitization; when a communitization agreement terminates; when a unit agreement contracts; and when production ceases.

Guidance for unit or communitization agreement termination, unit contraction, and unit segregation; partial assignment segregation; and cessation of production, are contained in Handbooks 3105-1, 3106-1, and 3107-1, respectively. For guidance on transferring lease accounts from nonproducing (terminable) status to royalty/minimum royalty (nonterminable) status, see Handbook 3107-1.

Keywords

B. Nonunitized Leases

When a nonunitized lease converts to a minimum royalty paying status in the MMS automated system, it will not revert to a rental status in the MMS system even though production ceases and there is no longer a well capable of paying production on the lease lands (unless specific notification is provided to the MMS by the BLM). Thus, even though the term of the lease may have reverted to a fixed number of years, it is still subject to minimum royalty (see 71 I.D. 361 (1964)).

There are, however, several exceptions or instances where minimum royalty lands revert to rental status, as follows:

1. When nonproductive lands are segregated from a producing lease into a separate lease by reason of a partial assignment, the lease without the productive well reverts to a rental status on the anniversary date on or after the effective date of the assignment, and the lease account will be changed in the MMS automated system from a producing (nonterminable) to a nonproducing (terminable) status. The lease containing the well remains on minimum royalty.

PARTIAL
ASSIGNMENT

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2

Keywords

2. If a renewal lease is in a minimum royalty status and production ceases prior to the end of its term, the lease reverts to a rental status and changes in the MMS automated system from a producing (nonterminable) to a nonproducing (terminable) status when the lease is renewed again.

CESSATION OF
PRODUCTION
RENEWAL LEASES

3. a. If a lease subject to minimum royalty is in its original or fixed term and production ceases, and if the depleted well is on the leasehold, the lease remains in a minimum royalty status in the MMS automated system through the remainder of such original or fixed term.

CESSATION OF
PRODUCTION
ON LEASE

b. If the depleted well is off the leasehold, the lease will revert to a rental status on the next anniversary date and the account must be changed from a producing (nonterminable) to a nonproducing (terminable) status in the MMS automated system, provided there was never any other on-lease production to warrant minimum royalty.

CESSATION OF
PRODUCTION
OFF LEASE

EXAMPLE: All leases committed to a communitization agreement receive a 2-year extension when the agreement terminates upon cessation of production. The lease with the well would continue on minimum royalty (nonterminable status in the MMS automated system) during this 2-year period, while the lease that merely participated in communitized production would revert to rental status (terminable status in the MMS automated system) on the next anniversary date following termination of the agreement.

CESSATION OF
PRODUCTION

C. Unitized Leases

1. When a producing lease is segregated into two leases upon commitment in part to a unit, the lease containing a productive well remains on royalty/minimum royalty status. The lease without the productive well reverts to a rental status and the lease account in the MMS automated system is changed from a producing (nonterminable) to a nonproducing (terminable) status (see 75 I.D. 81 (1968)).

UNIT
SEGREGATION

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3

KeywordsUNIT
TERMINATION

2. When a unit agreement terminates and a unit lease contains a producing well (or a well that was once capable of production in paying quantities), the lease remains on minimum royalty. If the lease does not and never did contain a producing well, the lease reverts to a rental status and the lease account is transferred in the MMS automated system from a nonterminable to a terminable status (see 71 I.D. 233 (1964)).

3. For leases entirely eliminated from a unit by contraction, the leases that contain a producing well (or a well that was once capable of production in paying quantities) remain on royalty/minimum royalty, while the leases that do not and never did contain a producing well revert to a rental status and the lease accounts in the MMS automated system are transferred from nonterminable to terminable status.

UNIT
CONTRACTION

D. Applicability of Automatic Termination Provision
For Failure to Pay Rental Timely

Unitized leases containing lands outside the unit participating area (PA) are subject to rental payments at the rate specified in the lease for such lands if there is no well capable of production in paying quantities on those lands.

NOTE: If there are producing wells on acreage outside the PA, the wells were determined not to be paying wells on a unit basis, but only on a lease basis, otherwise the PA would have been expanded to include such wells. Thus, the acreage would be subject to minimum royalty instead of rental at the rate for unitized nonparticipating area acreage.

The automatic termination provision under 30 U.S.C. 188(b) does not apply to such leases if the rentals are not paid or if the payment is deficient (see Solicitor's Opinion, Automatic Termination of Unitized Leases for Failure to Pay Rentals, 69 I.D. 110 (1962)). When the unit contracts to the PA, those leases that are entirely outside the PA are eliminated from the unit and the lease accounts revert to a rental status, i.e., from a nonterminable to a terminable status in the MMS automated system. The rental rate in many cases will be at a higher rate upon elimination of the lease from the unit, as the lands may be within a known geological structure. If the rental due for the first anniversary date after contraction is not paid, the lease is then subject to the automatic termination provision, as it is no longer held by the producing unit.

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4

Keywords

Rentals due on the leases discussed above fall into two categories:

1. Rental due on the first anniversary date after contraction which, if not paid, will result in automatic lease termination. No interests or penalties accrue; the consequence of nonpayment is simply automatic termination by operation of law.

2. Rental that was due while the lease was unitized (and, thus, not subject to automatic termination). The amount due is a debt owed the United States for which interest and penalties accrue. A specific action is required to cancel the lease if the amount due, including any interest and penalties is not paid.

In the first category, if rental is not paid timely, the lease does not automatically terminate if the lessee was not notified of the change in status of the lease account (including any increased rental rate) prior to the rental due date. The Interior Board of Land Appeals has held in Husky Oil Co., 5 IBLA 7, 79 I.D. 17 (1972) that Congress intended that the automatic termination provision of 30 U.S.C. 188 (1970) apply to the regular, annual rental payment, the necessity for which a lessee had continuous notice and that this provision of the law was not intended to apply to a case where a lessee had no way of knowing that the obligation had accrued.

NONUNITIZED
RENTAL

In the second category, nonpayment of rental due is a violation of the lease terms that could result in cancellation of the lease. Since the lease does not contain a well capable of production in paying quantities and is no longer within a unit containing a well so capable, the lease may be cancelled administratively. The lessee must be notified of the amount due and allowed 30 days to tender the payment (43 CFR 3108.3(a)). Action by the BLM to cancel the lease would take place only upon a request from the MMS for such action, in accordance with the BLM/BIA/MMS Memorandum of Understanding.

UNITIZED
RENTAL

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Listing of ALMRS (Case Recordation) Data Element (DE)
1775 and 2910 Action Codes Applicable to Handbook 3105-1*

DE 1775

001 Apln Recd/Case Establish@#
057 Notice Sent-Prod Status#
058 Notice Sent-Nonprod Stat#
199 Cases Consolidated#
218 Lease Subject to DC#
225 Effective Date#
226 Lease Committed to Unit#
234 Elim by Contrac(Partial)#
248 Lease Committed to GSA#
256 Lease Committed to CA#
257 Elim by Contraction#
258 Extended#
259 Lease Segregated#
260 GSA Terminated#
261 DC Terminated#
262 Lease in Unit/Uncommit'd#
417 Acres - County##
444 Fund Code###
569 Case Created by Segr#
642 CA Terminated#
649 Lease Paying Min Rlty#
684 Unit Agrmt Terminated#
690 Agrmt Validated
691 Agrmt Invalidated#
718 Decision Issued
762 Expired#
763 Expires#
790 Terminated#
970 Case Closed#

DE 2910

387 Case Established@#
102 Notice Sent-Prod Status#
058 Notice Sent-Nonprod Stat#
972 Cases Consolidated#
243 Lease Subject to DC#
868 Effective Date#
232 Lease Committed to Unit#
253 Elim by Contrac(Partial)#
245 Lease Committed to GSA#
246 Lease Committed to CA#
226 Elim by Contraction#
235 Extended#
700 Lease Segregated#
249 GSA Terminated#
248 DC Terminated#
233 Lease in Unit/Uncommit'd#
523 Acres - County##
496 Fund Code###
209 Case Created by Segr#
522 CA Terminated#
649 Lease Paying Min Rlty#
336 Unit Agrmt Terminated#
690 Agrmt Validated
691 Agrmt Invalidated#
393 Decision Issued
234 Expired#
763 Expires#
244 Terminated#
970 Case Closed#

- * See official fluid leasing data standards for complete listing.
- @ Pending action required.
- # Mandatory use of action code required.
- ## Mandatory use of action code required when lands are located in more than one county.
- ### Mandatory use of action code required only for acquired lands mineral cases.

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